

IDP and BUDGET

2018/19 - 2020/21



Annexure D1 – D21

BUDGET RELATED POLICIES

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IDP and BUDGET

2018/19 - 2020/21



Annexure D1

MEDIUM TERM POLICY STATEMENT

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1. DEFINITIONS

"Accounting Officer"□

(a) means the City Manager;

(b) **"Allocation"**,

means□

(a) a municipality's share of the local government's equitable share referred to in section 214(l) (a) of the Constitution;

(b) an allocation of money to a municipality in terms of section 214(1)

(c) of the Constitution;

(c) an allocation of money to a municipality in terms of a provincial budget; or

(d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

"Annual Division of Revenue Act" means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

"Approved budget," means an annual budget□

(a) approved by a municipal council, or

(b) includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA;

"Basic Municipal Service" means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

"Budget□related Policy" means a policy of a municipality affecting or affected by the annual budget of the municipality, including□

(a) the tariffs policy, which the municipality must adopt in terms of section 74 of the Municipal Systems Act;

(b) the rates policy which the municipality must adopt in terms of legislation regulating municipal property rates; or

(c) the credit control and debt collection policy, which the municipality must adopt in terms of section 96 of the Municipal Systems Act; iii

"Budget transfer" means transfer of funding within a function / vote.

"Budget Year" means the financial year of the municipality for which an annual budget is to be approved in terms of section 16(1) of the MFMA;

"Chief financial officer" means a person designated in terms of section 80(2) (a) of the MFMA;

"Councillor" means a member of a municipal council;

"Creditor", means a person to whom money is owed by the municipality;

"Current year" means the financial year, which has already commenced, but not yet ended; **"delegation"**, in relation to a duty, includes an instruction or request to perform or to assist in performing the duty;

"Financial recovery plan" means a plan prepared in terms of section 141 of the MFMA
"financial statements", means statements

consisting of at least□

(a) a statement of financial position;

(b) a statement of financial performance;

(c) a cash□flow statement;

(d) any other statements that may be prescribed; and

(e) any notes to these statements;

"Financial year" means a twelve months period commencing on 1 July and ending on 30 June each year.

"Financing agreement" includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long□term debt over a period of time;

"Fruitless and wasteful expenditure" means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

"Irregular expenditure", means□

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA Act, and which has not been condoned in terms of section 170 of the MFMA;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office Bearers Act, 1998 (Act No. 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure";

"Investment", in relation to funds of a municipality, means

(a) the placing on deposit of funds of a municipality with a financial institution; or

(b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

"Lender", means a person who provides debt finance to a municipality;

"Local community" has the meaning assigned to it in section 1 of the Municipal Systems Act;

"Municipal Structures Act" means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

"Municipal Systems Act" means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

"Long-term debt" means debt repayable over a period exceeding one year;

"Executive mayor" means the councillor elected as the executive mayor of the municipality in terms of section 55 of the Municipal Structures Act;

"Municipal council" or "council" means the council of a municipality referred to in section 18 of the Municipal Structures Act;

"Municipal debt instrument" means any note, bond, debenture or other evidence of indebtedness issued by a municipality, including dematerialised or electronic evidence of indebtedness intended to be used in trade;

"Municipal entity" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"Municipality"

(a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or

(b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

"Accounting officer" means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

"Municipal service" has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

"Municipal tariff" means a tariff for services which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff;

"Municipal tax" means property rates or other taxes, levies or duties that a municipality may impose;

"National Treasury" means the National Treasury established by section 5 of the Public Finance Management Act;

"Official", means

(a) an employee of a municipality or municipal entity;

(b) a person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

(c) a person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee;

"Overspending"

(a) means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;

(b) in relation to a vote, means causing expenditure under the vote to exceed the amount appropriated for that vote; or

(c) in relation to expenditure under section 26 of the MFMA, means causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Past financial year" means the financial year preceding the current year; **"quarter"** means any of the following periods in a financial year:

(a) 1 July to 30 September;

(b) 1 October to 31 December;

(c) 1 January to 31 March; or

(d) 1 April to 30 June;vi

"Service delivery and budget implementation plan" means a detailed plan approved by the executive mayor of a municipality in terms of section 53(l)(c)(ii) of the MFMA for implementing the municipality's delivery of municipal services and its annual budget, and which must indicate□

(a) projections for each month of□

(i) revenue to be collected, by source; and

(ii) operational and capital expenditure, by vote;

(b) service delivery targets and performance indicators for each quarter; and

(c) any other matters that may be prescribed, and includes any revisions of such plan by the executive mayor in terms of section 54(l) (c) of the MFMA;

"Short□term debt" means debt repayable over a period not exceeding one year;

"Standards of generally recognised accounting practice," means an accounting practice complying with standards applicable to municipalities or municipal entities as determined by the Accounting Standards Board

"Unauthorised expenditure", means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes□

(a) overspending of the total amount appropriated in the municipality's approved budget;

(b) overspending of the total amount appropriated for a vote in the approved budget;

(c) expenditure from a vote unrelated to the department or functional area covered by the vote;

(d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;

(e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or

(f) a grant by the municipality otherwise than in accordance with the MFMA; **"Virement"** means transfer of funds between functions / votes

"Vote" means□

(a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

(b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

2. APPLICATION AND SCOPE

This Medium Term Budget Policy applies to the City of Ekurhuleni (CoE) and the following municipal entities;

- Brakpan Bus Company (BBC);
- East Rand Water Care Company (ERWAT); and
- Ekurhuleni Housing Company (EHC), including Pharoe Park, Phase Two and Lethabong Housing Institute.

The policy will be effective as from 1 July 2018.

3. OBJECTIVES OF POLICY

The objective of the budget policy is to set out:

- The principles which the municipality will follow in preparing each medium term revenue and expenditure framework budget,
- The responsibilities of Council, the mayor, the accounting officer, the chief financial officer and other senior managers in compiling the budget
- To establish and maintain procedures to ensure adherence to the IDP review and budget processes.

4. INTRODUCTION

In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection of the Act concerned, in order to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year. This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals. In brief, the conceptualisation and the operationalisation of the budget must be located within the national government's policy framework.

5. BUDGETING PRINCIPLES

- The municipality shall not budget for a deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels;
- Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget;
- The CoE shall prepare three-year budget (medium term revenue and expenditure framework (MTREF)) and that must be reviewed annually and approved by Council; and
- The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan (IDP) and the Built Environment Performance Plans (BEPPS).

6. BUDGET PREPARATION PROCESS

6.1. FORMULATION OF THE BUDGET

- a) The Accounting Officer, with the assistance of the Chief Financial Officer and the Heads responsible for Strategy and corporate Planning, shall draft the Schedule of key deadlines for the budget and allied processes for the municipality and its municipal entities for the ensuing financial year;
- b) The schedule of key deadlines shall indicate the processes relative to the review of the IDP as well as the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the Municipal Finance Management Act as well as the guidelines set by National Treasury;
- c) The Executive Mayor shall table the IDP process plan as well as the budget timetable to Council by 31 August each year for approval (10 months before the start of the next budget year);

- d) Strategic workshop shall be convened in September/October with senior managers in order to determine the IDP priorities which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressures facing the municipality;
- e) The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new budget year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc);
- f) The Chief Financial Officer and senior managers undertake the technical preparation of the budget;
- g) The budget must be in the format prescribed by National Treasury, and must be divided into capital and operating budget;
- h) The budget must reflect the realistically expected revenues by major source for the budget year concerned; and
- i) The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the actual revenues and expenses for the prior year, and the estimated revenues and expenses for the current year.

6.2. PUBLIC PARTICIPATION PROCESS

Immediately after the draft annual budget has been tabled, the municipality must convene regional and public hearings on the draft budget in April and invite the public, stakeholder organisations, to make representations and to submit comments in response to the draft budget.

6.3. APPROVAL OF THE BUDGET

- a) Per legislation, Council shall **consider** the next medium term expenditure framework budget for approval not later than 31 May (at least 30 days before the start of the budget year);
- b) The annual budget must be approved before the start of the financial year;
- c) Should the municipality fail to approve the budget before the start of the budget year, the mayor must inform the MEC for Finance that the budget has not been approved;
- d) The budget tabled at Council for approval shall include, inter alia, the following draft resolutions:
 - I. draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned;
 - II. draft resolutions approving measurable performance objectives for each budget vote, taking into account the municipality's IDP;
 - III. draft resolutions approving any proposed amendments to the IDP;
 - IV. draft resolutions approving any proposed amendments to the budget related policies; and
 - V. draft resolutions approving the contents of the annual budget and supporting documents in terms of Section 17 of the MFMA.

6.4. PUBLICATION OF THE BUDGET

Immediately after the budget is tabled the Accounting Officer (AO) must make public the budget and its supporting documents and invite the local community to submit representations in connection with the budget.

Therefore the Senior Manager Budgets on behalf of the AO must coordinate the publication of the budget and other budget related documentation onto the municipal website so that it is accessible to the public as well as submit within 14 days both printed and electronic formats to the National Treasury, the Provincial Treasury and any other prescribed Organs of State affected by the Budget.

6.5. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

- (a) The Mayor must approve the Service Delivery and Budget Implementation Plan not later than 28 days after the approval of the Budget by Council.
- (b) The SDBIP shall include the following components:
 - i. Monthly projections of revenue to be collected for each source
 - ii. Monthly projections of expenditure (operating and capital) and revenue for each vote
 - iii. Quarterly projections of service delivery targets and performance indicators for each vote
 - iv. Ward information for expenditure and service delivery
 - v. Detailed capital works plan broken down by ward over three years

7. CAPITAL BUDGET

- a) Expenditure of a project shall be included in the capital budget if it meets the asset definition i.e. if it results in it having a useful life in excess of one year;
- b) The capital budget shall distinguish between rehabilitated, replacements and new infrastructure;
- c) Vehicle replacement shall be done in terms of Council's vehicle replacement policy. The budget for vehicles shall distinguish between replacement and new vehicles;
- d) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget;
- e) The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and has not been committed for other purposes;
- f) Before approving a capital project, the Council must consider:
 - the projected cost of the project over all the ensuing financial years until the project becomes operational;
 - future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs);
 - the impact on the present and future operating budgets of the municipality;
 - in relation to finance charges to be incurred on external loans;
 - Impact on depreciation of fixed assets;
 - Impact maintenance of fixed assets; and
 - any other ordinary operational expenses associated with any item on such capital budget.
- g) Council shall approve the annual or adjustment capital budget only if it has been properly balanced and fully funded;
- h) The capital expenditure shall be funded from the following sources:

Internal Funding

- a) If any project is to be financed from internal revenue, this financing must be included in the cash budget to raise sufficient cash for the expenditure and
- b) If the project is to be financed from surplus there must be sufficient cash available at time of execution of the project.

External loans

- a) External loans can be raised only if it is linked to the financing of an asset;
- b) A capital project to be financed from an external loan can only be included in the budget if the loan has been secured or if can be reasonably assumed as being secured;
- c) The loan redemption period should in the main not exceed the estimated life expectancy of the asset;

- d) Interest payable on external loans shall be included as an expense in the revenue budget; and
- e) Finance charges relating to such loans shall be charged to or apportioned only between the departments or votes to which the projects relate.

Capital Replacement Reserve (CRR)

Council shall establish a CRR for the purpose of financing capital projects and the acquisition of assets. Such reserve shall be established from the following sources of revenue:

- unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes
 - interest on the investments of the CRR, appropriated in terms of the investments policy;
- a. Before any asset can be financed from the CRR the financing must be as cash as his fund must be cash backed;
 - b. If there is insufficient cash available to fund the CRR this reserve fund must then be adjusted to equal the available cash;
 - c. Transfers to the CRR must be budgeted for in the cash budget;

Grant Funding

- a) Non capital expenditure funded from grants must be budgeted for as part of the revenue budget;
- b) Interest earned on investments of Conditional Grant Funding shall be capitalised if the conditions state that interest should accumulate in the fund. If there is no condition stated the interest can then be allocated directly to the revenue accounts.
- c) If grant funded assets are to be bridge financed cash should be secured before spending can take place.

8. OPERATING BUDGET

- (a) The municipality shall budget in each annual and adjustments budget for the contribution to:
 - i. provision for accrued leave entitlements;
 - ii. entitlement of officials as at 30 June of each financial year;
 - iii. provision for bad debts in accordance with its rates and tariffs policies;
 - iv. provision for the obsolescence and deterioration of stock in accordance with its materials management policy;
 - v. Depreciation and finance charges shall be charged to or apportioned only between the departments or votes to which the projects relate; and
 - vi. At least 8% of the value of Property, Plant and Equipment component of each annual and adjustments budget shall be set aside for maintenance.
- (b) When considering the draft annual budget, council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households;
- (c) The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts;
- (d) The operating budget shall reflect the impact of the capital component on:
 - depreciation charges
 - repairs and maintenance expenses
 - interest payable on external borrowings
 - other operating expenses.
- (e) The cost of indigency relief is separately reflected in the appropriate votes.

9. FUNDING OF CAPITAL AND OPERATING BUDGET

- (a) The budget may be financed only from:
 - i. realistically expected revenues, based on current and previous collection levels;
 - ii. cash-backed funds available from previous surpluses where such funds are not required for other purposes; and
 - iii. borrowed funds in respect of the capital budget only.

10. UNSPENT FUNDS / ROLLOVER OF BUDGET

- a) The appropriation of funds in an annual or adjustments budget will lapse to the extent that they are unspent by the end of the relevant budget year, but except for funds relating to capital expenditure;
- b) Only unspent grants (if the conditions for such grant funding allows that) or loan funded capital budget may be rolled over to the next budget year;
- c) Conditions of the grant fund shall be taken into account in applying for such rollover of funds;
- d) Application for rollover of funds shall be forwarded to the budget office by the 15 June each year in order to be by Council by August in terms of legislation;
- e) No funding for projects funded from the Capital Replacement Reserve shall be rolled over to the next budget year except in cases where a commitment has been made 90 days (30 March each year) prior the end of that particular financial year;
- f) No unspent operating budget shall be rolled over to the next budget year.

11. VIREMENTS BUDGET/ BUDGET TRANSFERS

The virements budget is covered in a separate policy and is summarised as follows:

- a) Budget transfers within the same vote shall be recommended by the Head of Department or his nominee and approved by the Chief Financial Officer or such other senior delegated official in the Budget and Treasury Department;
- b) No budget transfers or virements shall be made to or from salaries except with the prior approval of the City Manager and the Chief Financial Officer;
- c) In cases of emergency situations virements shall be submitted by the Accounting Officer to the Executive Mayor for authorisation and be reported to Council at its next meeting;
- d) The budget for personnel expenditure may not be increased without prior approval of the City Manager and Chief Financial Officer;
- e) Savings on allocations earmarked for specific operating and capital projects may not be used for other purposes except with the approval of council; and
- f) Savings may be utilised in the amount appropriated under a main expenditure category (e.g. Salaries, General Expenses, Repairs & Maintenance, etc.) within a vote towards the defrayment of excess expenditure under another main expenditure category within the same vote, with the approval of the Chief Financial Officer or such senior delegated official in the Budget & Treasury Department.
- (g) Savings in an amount appropriated for capital expenditure may not be used to defray operational expenditure.
- (h) Virements between votes shall be included in the adjustment budget.

12. ADJUSTMENT BUDGET

The principles of an adjustment budget are as follows:

- a) The chief financial officer shall ensure that the adjustments budgets comply with the requirements of the National Treasury and reflects the budget priorities and are

- aligned with the IDP, and comply with all budget-related policies, and shall make recommendations regarding the revision of the IDP, SDBIP and the budget-related policies that may arise out of these adjustments to the budget;
- b) Council may revise its annual budget by means of an adjustments budget as prescribed by legislation in terms of section 28 of the MFMA and regulation 23 of The Municipal Budget and Reporting Regulations, which provides, inter alia for the following:
- I. An adjustment budget may be tabled in the Municipal Council at any time after the Mid-year Budget and Performance Assessment has been tabled in the Council, but **not later than 28 February** of the current year; and
 - II. Only **one** adjustment Budget referred to above may be tabled in the Municipal Council during a financial year, except:
 - when additional revenues are allocated to a municipality in a national or provincial adjustment budget or via institutional grants; and
 - to authorise unforeseen and unavoidable expenditure or to authorise roll-overs from the previous financial year.
- c) Departments must submit their final adjusted budgets to the Budget Office by end January – to take into account recommendations from the mid-year budget and performance report tabled to Council in January that affect the annual budget;
- d) An adjustments budget must contain all of the following:
 - an explanation of how the adjustments affect the approved annual budget;
 - appropriate motivations for material adjustments; and
 - an explanation of the impact of any increased spending on the current and future annual budgets.
- e) Any unappropriated surplus from previous financial years, if fully cash backed may be used to balance any adjustments budget;
- f) Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan;
- g) Unauthorised expenses may be authorised in an adjustments budget;
- h) In regard to unforeseen and unavoidable expenditure, the following apply; and
- i) The Executive Mayor may authorise such expenses in an emergency or other exceptional circumstances and these expenses must be reported to Council at its next meeting.

13. BUDGET IMPLEMENTATION

13.1. MONITORING

- a) The accounting officer with the assistance of the chief financial officer and other senior managers are responsible for the implementation of the budget, and must take reasonable steps to ensure that:
 - funds are spent in accordance with the approved budget;
 - expenses are reduced if expected revenues are less than projected; and
 - revenues and expenses are properly monitored.
- b) The Accounting officer with the assistance of the chief financial officer must prepare any adjustments budget when such budget is necessary and submit it to the Executive Mayor for consideration and tabling to Council;
- c) The Accounting officer must report in writing to the Council any impending shortfalls in the annual revenue budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

13.2 REPORTING

13.2.1 Monthly budget statements

- a) The accounting officer with the assistance of the chief financial officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

This report must reflect the following:

- i) actual revenues per source, compared with budgeted revenues;
 - ii) actual expenses per vote, compared with budgeted expenses;
 - iii) actual capital expenditure per vote, compared with budgeted expenses;
 - iv) actual borrowings, compared with the borrowings envisaged to fund the capital budget;
 - v) the amount of grant ☐ allocations received, compared with the budgeted amount;
 - vi) actual expenses against allocations, but excluding expenses in respect of the equitable share;
 - vii) explanations of any material variances between the actual revenues and expenses as indicated above and the projected revenues by source and expenses by vote as set out in the service delivery and budget implementation plan;
 - viii) the remedial or corrective steps to be taken to ensure that the relevant projections remain within the approved or revised budget; and
 - ix) projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.
- b) The report to the National and provincial Treasuries must be both in electronic format and in a signed printed formats.

13.2.2 Quarterly and Mid Year Reports Reports

The Executive Mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the budget and the financial state of affairs of the municipality.

13.2.3 Mid-year budget and performance assessment

- a) The Accounting officer must assess the budgetary performance of the Municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the service delivery and budget implementation plan;
- b) The Accounting officer must then submit a report on such assessment to the Executive Mayor by 25 January each year and to Council, Provincial Treasury and National Treasury by 31 January each year; and
- c) The Accounting Officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the annual budget and for revising the projections of revenues and expenses set out in the service delivery and budget implementation plan.

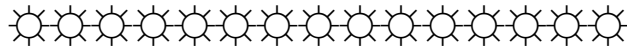
14. CONCLUSION

The respective officials in the Heads of Departments must coordinate the placement on the municipality's official website the following:

- a) the annual and adjustments budgets and all budget-related documents;
- b) all budget-related policies;
- c) the integrated development plan;
- d) the annual report;
- e) all performance agreements;
- f) all service delivery agreements;
- g) all long-term borrowing contracts; and
- h) all quarterly and mid-year reports submitted the Council on the implementation of the budget and the financial state of affairs of the municipality.

15. EFFECTIVE DATE

The effective date of this policy is the 1st July 2018 and shall be reviewed annually.



IDP and BUDGET

2018/19 - 2020/21



Annexure D2

PRICING POLICY STATEMENT

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PRICING POLICY

1. APPLICATION AND SCOPE

The Pricing Policy is applicable to the City of Ekurhuleni as well as to all of the municipal entities of the Metro, being:

- ▶ Brakpan Bus Company;
- ▶ East Rand Water Care Company; and
- ▶ Ekurhuleni Development Company, including Pharoe Park, Phase Two and Lethabong Housing Institute.

The policy will be effective as from 1 July 2018.

2. OBJECTIVES OF POLICY

To ensure that pricing of services in the City of Ekurhuleni is done in a financially sustainable and socially responsible manner, and in doing so:

- ▶ Determining cost reflective tariffs, as far as is possible;
- ▶ Ensuring equitable pricing;
- ▶ Ensuring affordability of basic services to the community;
- ▶ To ensure compliance with the Municipal Systems Act; and
- ▶ To ensure compliance with all tariff setting regulatory bodies.

3. INTRODUCTION

The municipality must have a balance between investments made in productive capacity versus investment made in social services. As such, a Pricing Policy Statement was introduced with the compilation of the 2013/14 – 2015/16 budget cycle. This policy statement must be read in conjunction with the following policy documents:

- ▶ Budget Policy Statement;
- ▶ Property Rates Policy;
- ▶ Electricity Tariff Policy;
- ▶ Free Basic Electricity Policy;
- ▶ Water and Wastewater Tariff Policy; and
- ▶ Waste Management Services Tariff Policy.

4. VARIOUS CATEGORIES OF PRICING

The City of Ekurhuleni has a wide range of customers. The pricing policy is intended to derive at appropriate pricing and cross-subsidisation mechanisms to meet the needs of the various customer groupings.

Whilst the categories of users guide pricing, the various tariff policies of the Metro will govern the prices that will be payable for the various services and a person will not be

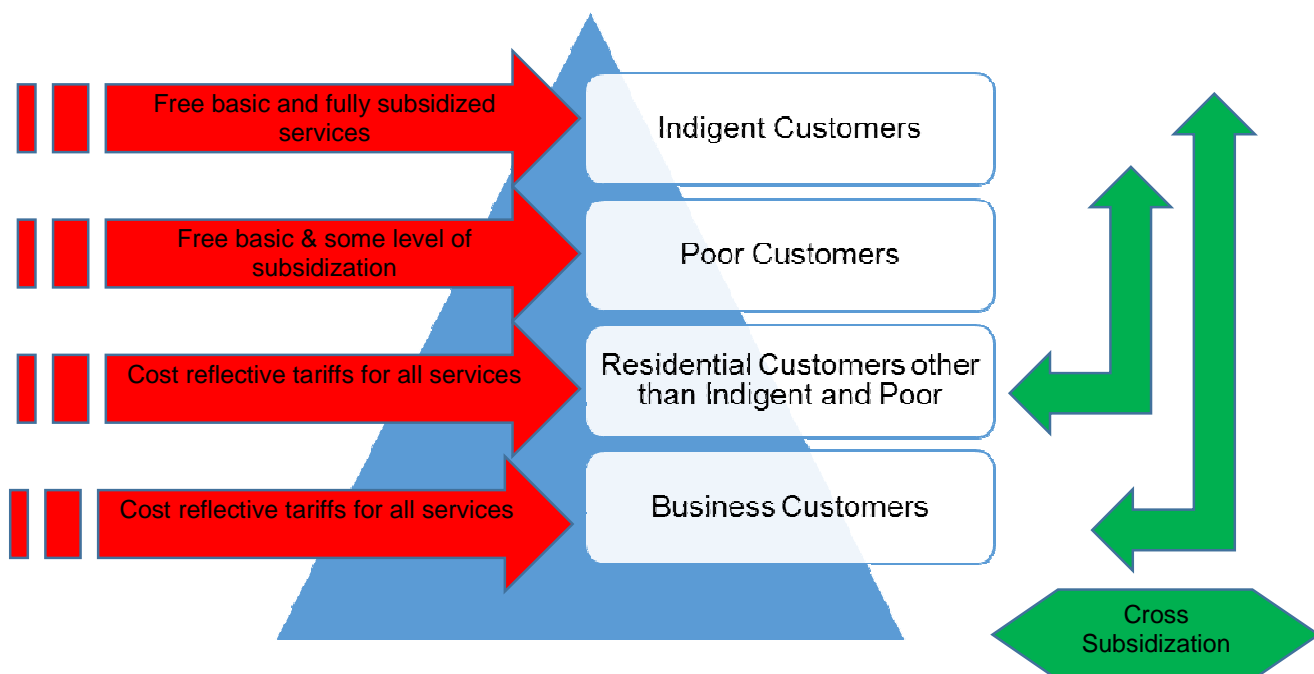
entitled to a subsidy simply based on the category in which the person is deemed to fall. The exception will be the indigent category where a person will qualify for grants, rebates and free basic services based on the indigent status as soon as the person has been approved as indigent and included in the formal indigents register of Council.

In terms of the approved Indigent Policy of Council, indigent relief will be granted to an approved household where the:

- a) combined household income of all occupants/ residents and/ or dependants residing on the property and are over the age of 18 years of age, is less than two (2) state monthly pension grants, as amended by Minister of Finance from time to time;
- b) Combined household income of all occupants/ residents and/or dependants residing on the property and are over the age of 18 years, is less than two monthly wage, based on Area A Domestic Sector more than 27 hour week determination, as amended by the Minister of labour from time to time.
- c) account in respect of basic services and/or assessment rates, is held with Council in the name of the applicant;
- d) applicant is a South African citizen;
- e) the property is used for Residential purposes only; and
- f) owner of the property is an indigent applicant and municipal value of property does not exceed maximum value as determined by Council's assessment rates tariff policy.

In addition, residents of Ekurhuleni who do not have a formal municipal account but live in an informal settlement will also be registered as indigents. Whilst these residents will not benefit from rebates related to assessment rates, free basic services will be extended to these residents to the extent that infrastructure is available (i.e. provision of water to informal settlements, collection of refuse from informal settlements, chemical toilets, free basic electricity or free basic alternative energy etc.). Other benefits that apply to registered indigents will also be extended to those in informal settlements who are registered on the indigents register of Council.

The pricing and cross-subsidisation strategy is reflected below:



5. DETERMINATION OF POVERTY

There are differences between poverty and indigence and the factors to be taken into account in determining the aforementioned are in the process of policy formulation as required in terms of the law.

How do we deal with scenarios where an individual is a beneficiary under the indigent policy of the municipality in circumstances where it is clear that the individual is above the set threshold to qualify for such benefits or discounts? For example, an individual who lives in a shack simply because it is his or her choice, or individuals with certain amenities which ordinarily cannot be enjoyed by people falling within the threshold, as set out for qualification in the indigence scheme (such as DSTV in a shack or a flashy car etc).

The list below relates to legislative provisions, municipal policies and by-laws which are relevant in dealing with this matter:

- ▶ The Constitution of the Republic of South Africa Act 108 of 1996.
- ▶ Water Services Act.
- ▶ The Municipal Systems Act 32 of 2000.
- ▶ The Municipal Property Rates Act 6 of 2004.
- ▶ Framework for a Municipal Indigent Policy.
- ▶ Electricity Pricing Policy (EPP) of the South African Electricity Supply Industry
- ▶ Electricity By-laws.
- ▶ Water By-laws.
- ▶ Policy on the Provision of Free Basic Services – water and wastewater.
- ▶ Electricity Basic Services Support Tariff (Free Basic Electricity) Policy
- ▶ Policy on the Provision of Free Basic Electricity.
- ▶ Indigent Support Policy.
- ▶ Property Rates Policy.

Section 229 of the Constitution authorises the municipality to impose rates on property and surcharges on fees for services provided by, or on behalf of, the municipality subject to national legislation.

Section 3 of the Water Services Act states that everyone has a right of access to basic water supply and basic sanitation.

Section 74 of the Municipal Systems Act provides that a municipal council must adopt and implement a tariff policy on the levying of fees for municipal services, in accordance with prescribed principles in terms of the section.

Section 2(a) of the Municipal Property Rates Act says that a metropolitan or local municipality may levy a rate on property in its area.

Section 3(5) of the Municipal Property Rates Act states that any exemptions, rebates or reductions adopted by a municipality must comply and be implemented in accordance with a national framework that may be prescribed after consultation with organised local government.

It is worth mentioning at this stage that the above mentioned legislation does not define poverty or indigent. Poverty is defined in Black's Law Dictionary as *"a condition where people's basic needs like food and shelter are not being met"*. Indigent is defined in the

aforementioned source as “a person who is needy and poor, or one who has no property to furnish him a living or anyone able to support him and to whom he is entitled to look for support”.

5.1 PROPERTY RATES POLICY

Paragraph 6 of the abovementioned policy provides for criteria for exemptions, reductions and rebates in terms of which the following are to be taken into account:

- a) Indigent status of the owner of a property.
- b) Source of income of the owner of a property; and
- c) Social or economic conditions of the area where the owners of the property are located.

Paragraph 7 lists the categories of owners of property for purposes of exclusions, exemptions, reductions, rebates and differential rating, namely, residential, indigent owners, child headed households, pensioners and disability grantees/medically boarded persons and the like.

Paragraph 8 deals with various property rates rebates granted to qualifying property owners.

5.2 INDIGENT SUPPORT POLICY

This policy defines an “indigent person” as a person lacking the basic necessities of life such as insufficient water, basic sanitation, refuse removal, health care, housing, environmental health, and supply of basic energy, food and clothing.

“Deemed Indigent” household is defined as individuals who live together in a single residential property and qualifies for indigent relief based on the use and value of property as determined in terms of general valuation roll.

Paragraph 9 deals with the criteria for qualification for indigent support and under 9.1.1, indigent relief will be granted to an approved household where the:

- a) Combined household income of all occupants/residents and/or dependents residing on the property and are over the age of 18 years, are less than two state monthly pension grants.
- b) Account in respect of basic services and/ or assessment rates, is held with Council in the name of the applicant.
- c) Applicant is a South African citizen.
- d) The property is used for residential purposes only, and
- e) Owner of the property is an indigent applicant and municipal value of the property does not exceed the maximum value as determined by council's assessment rates tariff policy.

Paragraph 9.1.3 states that indigent relief will **not** be granted where the applicant, household, occupants/residents and/or dependents residing on the property, as the case may be, -

- a) Receive significant benefits or regular monetary income (own emphasis) that is
- b) above the indigent qualification threshold.
- c) Applicant is not registered as consumer of services in the records of council, and
- d) Applicant owns more than one property, registered individually or jointly.

Paragraph 9.2 states that households will be deemed indigent if the property is used for residential purposes only and municipal value of the property does not exceed R150 000.

If a customer's application as an indigent is successful and the customer's electricity consumption is measured with a post-paid (credit) meter, the post-paid meter shall be replaced with a prepayment meter.

6. ASSESSMENT RATES PRICING

The following principles will ensure that the municipality treats persons liable for assessment rates equitably in terms of the act:

- ▶ Ratepayers with similar categories of properties will pay similar levels of assessment rates.
- ▶ The ability of specific categories of properties and/or categories of owners to pay their assessment rates will be taken into account by the Council through applicable rebate policies.
- ▶ In terms of section 229(2)(a) of the Constitution, a municipality may not exercise its power to levy rates on property in a way that would materially and unreasonably prejudice -
 - (a) national economic policies;
 - (b) economic activities across its boundaries; or
 - (c) the national mobility of goods, services, capital or labour.
- ▶ The determination of the tariffs and the levying of rates must allow the Council to promote local, social and economic development.

Property rates are determined based on the categories of rateable properties which are determined according to actual use of the property irrespective of the permitted use in terms of the Town Planning Scheme. Categories of properties are included in Property Rates Policy and reviewed on annual basis in terms of the provisions of Municipal Property Rates Act.

The applicable tariffs relevant to various categories of properties will be influenced by :

- ▶ Pricing ratio of the category – Residential category forms the basis of ratio determination with differentiated ratios being applied to different categories of properties. As an example, industrial ratio is 2.5, meaning that the rate of industrial properties will be 2.5 times higher than the residential rate. Similarly, the ratio of farms is 0.25 meaning that the rate of farms will be a quarter of that of residential properties. The various ratios are contained in the property rates policy.
- ▶ Rebates and exemptions granted in respect of category – various categories have rebates associated with the use of the property. Churches, as an example, receive a 100% rebate, indigents receive a 100% rebate, and pensioners receive rebates based in first instance on pensioner status with additional rebate of up to 100% depending on their household income. In addition, all residential properties have a legally compulsory exemption of at least R15 000. This exemption can be increased to the discretion of Council as part of its pricing policy.

In addition, the existing rebates offered in terms of Section 15(1) (b) of the Property Rates Act read with Council's Property Rates Policy will remain in place for the 2017/18 financial year.

The rebates are as follows:

- ▶ **Indigent Households** – Owner of residential property, registered in terms of councils approved Indigent Policy, be exempted from paying of property rates.
- ▶ **Child headed households** – That a child headed household registered in terms of councils approved Indigent Policy, be exempted from paying of property rates.
- ▶ **Age/Pensioners reduction, disability grantees and medically boarded persons** –subject to requirements as set out in Property Rates Policy, an additional reduction of R150 000 on the market value of residential property owned by person older than 60 years of age or registered as “Life right use” tenant in deeds office (Age/Pensioner reduction), disability grantees and medically boarded persons be granted.
- ▶ **Aged/Pensioners rebate, disability grantees and medically boarded persons** –an additional rebate be granted in respect of sliding scale based on average monthly earnings.

The applicant must:

- be the registered owner of the property or registered as “Life right use” tenant in deeds office.
- produce a valid identity document;
- must be at least 60 years of age upon application, provided that where couples are married in community of property and the property is registered in both their name, the age of the eldest will be the qualifying factor, or approved disability grantee or approved medically boarded person;
- not be in receipt of an indigent assessment rate rebate;
- reside permanently on the property concerned which consists of one dwelling only and no part thereof is sub-let;
- confirm the aforementioned details by means of a sworn affidavit and/or latest income tax assessment.
- On approval, the following rebates will be applicable:

| Average Monthly earnings in respect of preceding 12 months. | |
|--|-------------|
| R0.00 to R 3 600.00 (2 x State pensions when amended) | 100% rebate |
| R3,600.01 to R6,800.00 | 85% rebate |
| R6,800.01 to R10,000.00 | 70% rebate |
| R10,000.01 to R11,000.00 | 55% rebate |
| R11,000.01 to R16,500.00 | 40% rebate |

That the minimum “average monthly earnings” be adjusted annually and effective in accordance with National Government Budget announcement in respect of state pensions.

- ▶ **Municipal** – That non-trading services be exempted from paying of property rates.
- ▶ **Sporting bodies** - used for the purposes of amateur sport and any social

- ▶ activities which are connected to sport: 90% rebate in respect of the amount levied as rates on the relevant property but subject to existing agreements between club and Council not determining a different position.
- ▶ Welfare organisations registered in terms of the National Welfare Act, 1978 (Act No. 100 of 1978, 100% rebate in respect of the amount levied as rates on the property.
- ▶ Public benefit organisations/Non-Governmental Organisations (NGOs) and Cultural Organisations approved in terms of section 30 of the Income Tax Act 58 of 1962, read with Items 1, 2 and 4 of the Ninth Schedule to that Act, 100% rebate in respect of the amount levied as rates on the property.
- ▶ Protected areas/nature reserves/conservation areas – That protected areas/nature reserves/conservation areas be exempted from paying of property rates.
- ▶ Private schools, universities, colleges and crèches :
 - Private (independent) primary and secondary schools (regardless of whether subsidised or not), registered as educational institutions, a rebate of between 70% and 100% in respect of the amount levied as rates on the relevant property, subject to prior application and submission of prior years' audited financial statements. Rebate will be adjusted negatively in accordance with percentage ratio between net profit and gross income in the following categories:

| Net Profit after tax% | Net Rebate% |
|-----------------------|-------------|
| 0.00% - 10.00% | 100% |
| 10.01% - 20.00% | 90% |
| 20.01% - 30.00% | 80% |
| 30.01% - 40.00% | 70% |

- Private (independent) universities and colleges, registered as educational
 - institutions not subsidised by state, 20% rebate in respect of the amount levied as
 - rates on the relevant property.
 - Crèches, registered as educational institutions, 100% rebate in respect of the amount levied as rates on the relevant property.
- ▶ Vacant unimproved stands - That a 75% rebate be granted on residential property on which a dwelling unit(s) is/are being constructed and which will be used exclusively for that purpose, subject to the following conditions:
 - That an approved building plan is supplied;
 - That a residential dwelling unit(s) be constructed on the property;
 - That the 75% rebate be granted for a maximum period of eighteen (18) months from the date the approved building plan was supplied; That the occupation certificate be supplied at the end of the eighteen (18) month period;
 - That the failure to supply the occupation certificate will result in a reversal of the 75% rebate already granted; and
 - That in the event that the said property is sold prior to the issue of the occupation certificate, the rebate already granted be reversed.

7. ENERGY PRICING

The existing tariff structures will be carried forward in the next financial year, The City of Ekurhuleni portfolio of energy tariffs will remain largely unchanged in structure, however the annual increases are added to existing values

City of Ekurhuleni follows the Eskom inclining block tariff ((IBT - Homelight Tariff 60A), given that the City has approximately 150 000 households supplied by Eskom, inside City of Ekurhuleni boundaries. Eskom is proposing a two-block IBT to NERSA, which will then also be followed by City of Ekurhuleni, with a third block added to mitigate migration to the subsidised tariff by City of Ekurhuleni higher-end customers. The first IBT block is proposed to stretch up to 600 units. The City of Ekurhuleni average for this category of consumer is 450 units per month.

Current pricing approach

The Inclining Block Tariff was designed by NERSA to protect the poor from high electricity costs. In addition, Free Basic Electricity (FBE) also protects the poor from high electricity costs.

City of Ekurhuleni, strategically, matches the lower than municipal rate Eskom Inclining Block Tariff, given the approximately 150 000 Eskom customers in the area. Ekurhuleni provides electricity at the Eskom priced Inclining Block Tariff **and** provides 100 units FBE to **all** on Tariff A (IBT).

In July 2012, the IBT was reduced to match Eskom tariffs; this led to a substantial reduction in tariffs to consumers making use of the IBT tariffs.

FBE is dealt with under separate provisions of government's social programmes. The principle of an IBT is specifically provided for and supported by the "South African Electricity Supply Industry: Electricity Pricing Policy GN 1398 of 19 December 2008" (EPP) which states that:

"Low income tariff customer subsidisation: Charging an appropriate tariff structure that allows for maximum subsidization at low consumption levels with gradually reducing cross-subsidies as the consumption levels increase."

| Blocks | Consumption Levels | Basis of Block Range |
|---------|----------------------|--|
| Block 0 | 0 to 100 kWh | Equal to FBE |
| Block 1 | (>100 to <= 600 kWh) | Presumed average household consumption informed by National Treasury |
| Block 2 | >600 to <= 700 kWh | Cushioning customers spilling over from block1 |
| Block 3 | >700kWh | Barrier tariff to prevent a migration of higher end customers to the highly subsidized IBT |

- City of Ekurhuleni follows Eskom (Homelight Tariff 60A) on the IBT;
- City of Ekurhuleni will again add a final block with a very high tariff value, to prevent as far as is possible, migration by higher end customers;

Ringfenced percentage of Income Budget towards repair and maintenance expenditure

The electricity tariffs shall include a maintenance fund calculated at 4% of income. Income to this fund is to be used for preventative and critical maintenance of the network only. This is not a levy as defined by the Municipal Fiscal Powers and Functions Act.

The electricity tariffs are to include an energy efficiency fund of 0.25% of income. The income from this is to be used for energy efficiency projects within Ekurhuleni. It is not a levy as defined by the Municipal Fiscal Powers and Functions Act.

8. WATER AND SANITATION PRICING

Broad water pricing goals have been established by National Government. These goals have been primarily directed at the pricing of raw water; however, they form an important context for the establishing of retail tariff goals.

The National Water Act of 1998 clearly identifies four primary national water pricing goals:

- ▶ Improving social equity;
- ▶ Ensuring ecological sustainability;
- ▶ Ensuring financial sustainability; and
- ▶ Improving efficiency.

The broad principles used in the compilation of the tariffs to promote the attainment of the tariff setting goals mentioned above that are applied in setting the tariffs are:

- ▶ adequate services are provided fairly to all consumers of Ekurhuleni;
- ▶ the prices of water and sanitation reflect the fact that they are both social and economic goods, ie pricing promotes access to a basic service, encourages the wise and sustainable use of resources and ensures financial sustainability;
- ▶ Tariffs to be based on “efficient costs”(cost to run the water service provider in a cost effective, efficient manner);
- ▶ Payment to be in proportion to the amount of water consumed. This will promote the more efficient use of water, compared to tariffs which have a large fixed-cost component; and
- ▶ Tariffs should promote the development of competitive business and economic development.

There are many factors that influence the cost of delivering water to customers. The following relevant costs are taken into account in order to determining the water tariff:

- ▶ Rand Water cost-bulk purchase cost;
- ▶ ERWAT sanitation treatment cost;
- ▶ Unaccounted for water(UAW);
- ▶ Percentage non-payment (bad debt provision);
- ▶ Cost of free basic water;
- ▶ Operating and maintenance cost of City of Ekurhuleni water and sanitation system;
- ▶ Capital investment cost of City of Ekurhuleni water and sanitation system; and

- ▶ Portion of equitable share made available by Central Government.

The Council's water tariffs are affected by the following factors and the minimum tariff has to cover the following aspects:

- ▶ Cost of raw water or bulk potable water; plus
- ▶ Cost of overhead and operational costs (maintenance and depreciation etc.) plus
- ▶ Cost of capital (interest on loans); plus
- ▶ Reasonable rate of return on assets; plus
- ▶ Cost of free basic water provision; plus
- ▶ Provisions for bad debt and future infrastructure expansion; minus
- ▶ Subsidies (municipal infrastructure and the local government equitable share grants).

The Council's sanitation tariffs are affected by the following factors and the minimum tariff has to cover the following aspects:

- ▶ Sanitation treatment cost; and
- ▶ Cost of overhead and operational costs (maintenance and depreciation etc); plus
- ▶ Cost of capital (interest on loans); plus
- ▶ Reasonable rate of return on assets; plus
- ▶ Cost of free basic sanitation provision; plus
- ▶ Provisions for bad debt and future infrastructure expansion; minus
- ▶ Subsidies (municipal infrastructure and local government equitable share grants).

The water and sanitation tariffs shall include a maintenance levy calculated at 3% of income. Income resulting from this is to be used for critical water and wastewater maintenance only. This is not a levy as defined by the Municipal Fiscal Powers and Functions Act.

Steps tariffs for both domestic as well as commercial industrial usage have been applied (water and sanitation) to promote water conservation. The sanitation tariff will continue to be based on the volume of water consumed during the MTREF under consideration. The basis for this approach is to discourage wasteful water use practices and thus avoiding high water losses.

Current pricing approach

At present, the water and sanitation tariff structure is in the form of an inclining block tariff, ie the more you use, the more you pay. In addition, all residential customers do not pay for the first 6kl of water and sanitation. Registered indigents receive the 7th – 9th kilolitre at no cost as well.

The Water Loss Programme adopted must be strengthened in terms of resources so as to achieve intended targets and to reduce Non-Revenue Water levels. Currently water losses account for more than R400 million per year. This is revenue that cannot be recovered and is causing a strain on the surplus of the organisation. The eradication of water losses forms an integral part of the strategic priorities of the Metro in that it impacts on the broader business operation and further liquidity standing. The cost of water losses impact adversely on the existing consumers as such translates to direct increases on the tariffs charged for water and sanitation.

9. WASTE MANAGEMENT SERVICES PRICING STRATEGY

City of Ekurhuleni (Metro) renders waste management services as a service authority and a service provider. The following services are rendered by the Metro:

- i. Street sweeping and litter picking;
- ii. Round collected refuse removal (including free basic waste collection and disposal for indigent families)
- iii. Landfill management (current and closed landfills)
- iv. Transfer Stations and Mini Sites
- v. Illegal Dumping Management
- vi. Bulk container services

The above services are rendered by the Metro as well as contracted service providers. The Metro is responsible for all management activities within the area of jurisdiction, though the contracted waste management services account for 51% of the residential clients. Currently the tariffs are subsidizing the non-income generating service, requiring a large increase of the tariffs year on year.

The National Pricing Strategy for Waste Management (NPSWM) is a legislative requirement of the National Environmental Management: Waste Amendment Act (Act No. 26 of 2014) and gives effect to the National Waste Management Strategy (NWMS). The Waste Act, as amended in section 13B, calls for an Act of Parliament to give effect to the pricing strategy, including details on 13B (b) determination of waste management charges and the review of these waste management charges from time to time. Section 13B(c) includes procedures for collection of charges through the national fiscal system.

The municipal solid waste tariff strategy was developed by the Department of Environmental Affairs in 2012. Its purpose is to provide a framework and guidance for municipalities in setting solid waste tariffs that align with the intentions of the National Waste Management Strategy. The strategy recognises the importance of full cost accounting as the foundation of financial sustainability, which is critical in the delivery of effective and efficient waste services.

The selection and use of economic instruments (EIs) must also be aligned with the "polluter pays principle" where all generators of waste (including businesses and households) are responsible for the costs of managing the waste generated. These include not only the direct financial costs of collection, treatment and disposal of waste, but also associated negative externalities including negative health and environmental impacts. Hence, use of Extended Producer Responsibilities (EPRs) as stipulated within the strategy provides a mechanism for boosting the recycling economy and monitoring the effectiveness of the implementation of Industry Waste Management Plans.

The underpricing of waste services creates the wrong set of incentives, undermines waste minimization efforts, and ultimately undermines the polluter pays principle which as the Metro we are yet to fully implement and see its outcomes. Economic instruments are then introduced with the objective of addressing the underpricing/ market failure created by the wrong price signals so the correct price is charged. The economic instruments incentivise behavior change and remove pricing distortions. Disposal of waste to landfill imposes significant costs on the environment and broader society, in the form of various health, social and environmental hazards. By contrast, moving up the waste management hierarchy (reducing, reusing, recycling and recovery of waste) has clear benefits over final disposal to landfill. It saves natural resources and energy; leads to reduced production costs associated with using recycled as opposed to virgin materials; reduces the costs of waste management; reduces environmental impacts,

demand for landfill airspace and other costs associated with landfilling; and generates income and job creation opportunities for the poor and unemployed.

Metro currently derive its revenue from the following sources:

- i. User charges (tipping fees, round collected refuse removal residential and commercial, Bulk Container removal, Environmental Levy, Landfill gas and Litter picking fees)
- ii. Grants (Operational Grants and Capital Grants)

The NPSWM recommends that municipalities must fund some of the services within waste management services through the General Rates, see Table 1 below. By virtue of not using the recommended funding options, the Metro forfeits the advantage of using the other sources of revenue to fund services, thus the reliance on grant funding to break even.

Table 1: Waste Management Funding Options

| | Efficient allocation of resources | Efficient supply of services | Efficient use of natural resources | Cost recovery of natural resources | Financial viability | Horizontal equity | Vertical equity and poverty alleviation | Administrative and technical feasibility | Polluter pays | Avoid illegal dumping | Proportionality | Transparency | Promotion of local economic development |
|---------------------------------------|-----------------------------------|------------------------------|------------------------------------|------------------------------------|---------------------|-------------------|---|--|---------------|-----------------------|-----------------|--------------|---|
| General rates | X | X | X | X | X | X | X | X | X | X | X | X | X |
| User charges (Waste generation proxy) | X | Y | Y | X | X | Y | Y | Y | Y | X | Y | Y | Y |
| User charges (Services levels) | X | Y | Y | X | X | Y | Y | Y | X | X | Y | Y | Y |
| User charges (Pay as you throw) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Combined approaches (Ring fenced) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| Combined (Rates and charges) | X | X | X | X | X | X | X | X | X | X | X | X | X |
| General : SWS funded by user charges | X | X | X | X | X | X | X | X | X | X | X | X | X |

User charges for waste collection services in City of Ekurhuleni are flat monthly payments, often related to property size, value, type of waste, but unrelated to the quantity (volume or weight). This implies that the household does not pay per unit of waste generated or collected; i.e. The household faces zero costs at the margin for generating additional waste for disposal (usually to landfill); and thus has no incentive to reduce waste generation, or separate waste for recycling. The solution to this problem is not simply to increase waste management charges to a higher flat rate; as in that case the waste generator still faces zero costs at the margin for generating additional waste.

Table 2 shows the options for enhancing full cost recovery options that the Department will follow and their imbedded incentives.

Table 2 Options for full cost recovery for waste management services

| INSTRUMENT | INCENTIVE CREATED | Motivation and recommendations |
|------------------------------|--|--|
| Stand/Container Size | None | Users are not carrying the marginal cost of producing more waste in CITY OF EKURHULENI as well as that there are incentives for waste minimization. Move gradual towards pay as you throw. |
| Pay as you throw | Puts a price on each unit of waste collected from waste generators (such as households), thereby providing an incentive for the household to reduce the amount of waste generated or put out for collection, and to seek alternatives such as recycling or re-use. May further seek to internalise external (social and environmental) costs, thereby providing further incentives to reduce waste generation. | Volume or weight-based waste collection charges have been used by some municipalities in the European Union, South Korea, the United States, Union, South Korea, the United States, Canada and Australia |
| Landfill Rehabilitation Levy | None | Landfilling is still viewed as the cheapest option by users as the Metro bears the marginal cost of providing new landfills. |
| Waste Disposal taxes | Internalise the external costs of waste disposal into the disposal fees (e.g. landfill tipping fees), thereby increasing the cost of disposal relative to waste prevention, recycling and recovery, and in turn making the latter relatively more financially viable | The UK and some EU Member States levy a weight-based landfill tax on disposal to landfill, on top of the normal tipping fee (in combination with a ban on certain waste streams to landfill). |
| | | |

Volumetric tariffs (for the future) versus the Current container size, stand size and disposal tipping tariffs.

The aims of volumetric charging for waste collection services (pay-as-you-throw) are two-fold; firstly, to ensure that waste generators are charged per unit of waste set out for collection (ideally on a weight basis, or else per bag, or varying with bin size), thereby creating incentives for a reduction in waste generation. Secondly, having established volumetric charging, it is then possible to incorporate the external (social, environmental and health) costs associated with waste generation and disposal, in the form of a Pigouvian (environmental) tax (over-and-above tariffs reflecting full financial cost recovery). This tax rate should ideally be based on the external costs per ton of waste generated. It is also important that downstream charges distinguish between the costs related to providing the service at each specific stage of waste management (e.g. collection, transport, transfer, treatment and final disposal). True volumetric tariffs or pay-as-you-throw schemes have been implemented mainly in developed countries (e.g. USA, Switzerland, South Korea, Canada and Australia). In developing countries, waste

collection tariffs tend to be flat periodic payments aimed at cost recovery rather than at reducing waste generation. There are a few isolated examples from Latin America (e.g. Santiago (Chile) and Rio de Janeiro (Brazil)) where user charges are related to the weight of the waste being collected. Nevertheless, only the private (financial) costs of the waste service are incorporated; external costs are not addressed (UNEP 2006). Furthermore, the Waste Amendment Act (Section 13A) provides for waste management charges that differ in respect of different geographic areas, including -

- i. on the basis of socio-economic aspects within the area in question;
- ii. the physical attributes of each area; and
- iii. the demographic attributes of each area.

In this respect, volumetric tariffs could be applied differentially on the basis of income levels or some proxy thereof (e.g. property values or location); in order to ensure that the impact on indigent households is minimised. In practice, this could be applied through the use of rising step/block tariffs, free basic service levels, or rates that differ based on income levels, property value or location. To the extent that transport distances impact on the costs (and associated externalities) of providing the service, this could also be taken into account, and the realistic transport costs should be considered and measures put in place to minimise the impact on poor households. Not taking into account such costs may lead to inefficient solutions which may cost the poor household even more. Furthermore, the Waste Amendment Act (Section 13A) provides for waste management charges that differ in respect of different types of uses, including -

- i. on the basis of the manner in which the waste is generated or disposed of;
- ii. whether it is re-used, recycled or recovered;
- iii. whether any previously disadvantaged group is impacted upon or derives any benefit therefrom.

As such, the charges in question (or higher charges) should apply to waste that is destined for disposal to landfill, whereas no charges (or lower charges) should apply to waste that is destined for reuse, recovery or recycling; while the opportunity for recycling to be subsidised should also be considered. Similar considerations (i.e. varying charges by geographic areas or different types of use) apply to certain of the other economic instruments discussed in the document.

4.1.2 Disposal taxes for future, current is disposal tipping fees.

Where it is not feasible to monitor the quantity of waste collected from individual waste generators, an alternative is to apply the environmental tax at the disposal stage (over-and-above existing disposal fees, e.g. landfill tipping fees; provided that these fees already address the full financial costs associated with disposal). In the case of landfill taxes, the level of the tax should ideally be based on the external costs (e.g. air, water and soil pollution; health impacts and 'disamenities') per ton of waste disposed of to landfill. These types of valuations require fairly in-depth studies and are highly site-specific. Ideally, charges should be based on valuations that have been conducted (or at least adjusted) specifically for the site in question. Nevertheless, in those cases where landfill taxes with explicit environmental objectives have been implemented (e.g. in the UK and New Zealand); the level of charges tends to be determined at the national level.

While the downstream instruments are aimed at reducing waste generation and disposal, and changing consumer behaviour, the revenue generated through the tariffs and taxes can be used to fund activities such as landfill closure costs, pollution monitoring and control, clean-up of contaminated sites, and resource recycling and recovery activities.²⁰ Revenue generated through downstream instruments, if successful in their objectives, will decrease over time as waste generation is reduced or diverted away from landfilling. This is expected in any successful implementation of the environmental fiscal reform policy.

Downstream instruments (volumetric tariffs and disposal taxes) are typically implemented as a tax in line with the overall fiscal and taxation policy of government. They are either implemented by municipalities (in the case of volumetric tariffs) or national government (in the case of disposal taxes). While they may be implemented in conjunction with upstream instruments, as a direct tax they are typically implemented directly by National Treasury without the need for a broader local government or municipal implementation framework.

However, current research suggests that South African municipalities do not yet have the systems and infrastructure in place to implement downstream instruments such as volumetric tariffs ("pay-as-you-throw") and waste disposal taxes (including landfill and incineration taxes). In the case of waste disposal, differential tipping fees (varying by quantity and by waste type) are currently applied at most (if not all) private waste disposal facilities and some municipal waste disposal facilities. However, volumetric tariffs levied on the waste generators themselves, e.g. households, is still some way off from implementation.

- City of Ekurhuleni will ensure that they have financial and administrative systems in place before implementing volumetric tariffs on waste generators, such as correct billing and cost recovery systems. Similarly, the implementation of waste disposal taxes, require that the basics in waste management be achieved, before levying charges on waste disposal, e.g. correct waste information collection, weighing of waste at disposal facilities. National Treasury notes that disposal taxes may lead to perverse incentives and tax avoidance. As has been adopted elsewhere, government may opt to implement waste disposal taxes on permitted landfills, or on metropolitan municipalities and private waste disposal facilities, however this may have the unintended consequence of driving increased waste disposal to outlying small municipal landfills, which if not designed and operated correctly could have greater environmental and social impacts.

The department has revised the tariff structure to accommodate the following:

- The poor through a phased approach using different sliding pricing scales. The value range of properties up to R300 000 with a stand size of less than 300m² has a rebate of 15% that accounts for 39% of the residential communities; and
- A plan to roll out the 240 litter bins which has more benefits, and among those is the implementation of the polluter pays principle and it is proposed that the roll out is fast tracked.

A further revision of the tariff structure will be implemented in the future with the Integrated Waste Management Plan where the cost drivers will entail the entire waste management value chain i.e. planning, storage, recycling, transportation, alternative treatment and disposal.

Waste management tariffs for residential use should be "pro-poor" in their orientation and seek to ensure that a minimum basic level of service is affordable for all households, ensuring that all formal and informal households have access to basic waste management services. The policy must support the viability and sustainability of waste management services to the poor. Formal and informal households must have access to at least basic services through –

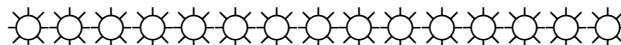
- 2.1.1 a free basic bagged service for informal households;
- 2.1.2 a basic 240l container for formal households;
- 2.1.3 tariffs that cover operating and maintenance costs; and
- 2.1.4 any other direct or indirect method of subsidisation of tariffs for poor households.

Cost reflectivity

Waste management tariffs must include all the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs and interest charges. Correct cost allocations should be made that will allow costs to be mapped against the tariffs required so as to reflect those costs and prevent residential users cross subsidizing non-residential users. It should also include the fee for those waste management services provided for, or on behalf of City of Ekurhuleni, which cannot be allocated to a specific consumer. This may include area cleaning and *ad hoc* cleaning services.

The costs incurred by City of Ekurhuleni are unique and include the following:

- i. Emptying the containers;
- ii. Transporting the waste collected to the nearest disposal facility;
- iii. Remuneration;
- iv. Disposal /land filling costs;
- v. Management of mini refuse sites at disposal facilities;
- vi. Provision for containers and replacement thereof if damaged, lost or stolen;
- vii. Provision for bad debts;
- viii. General administrative costs and overheads
- ix. Depreciation and interest on borrowings;
- x. Capital and infrastructure replacement reserves;
- xi. Rehabilitation of landfill sites; and
- xii. Providing an enabling environment for implementation of waste minimisation initiatives.



IDP and BUDGET

2018/19 - 2020/21



Annexure D3

PROPERTY RATES POLICY

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PROPERTY RATES POLICY

SECTION A : INTRODUCTION, DEFENITIONS AND PRINCIPLES

1. PREAMBLE

WHEREAS section 229 of the Constitution of the Republic of South Africa empowers municipalities to levy property rates, subject to national legislation;

AND WHEREAS section 2 of the Local Government: Municipal Property Rates Act No. 6 of 2004, as amended, is the national legislation that empowers a municipality to levy a rate on property in its area;

AND WHEREAS in terms of section 3(1) of the Act the council of a municipality must adopt a rates policy consistent with the Act on the levying of rates on rateable property in the municipality;

AND WHEREAS section 3(3) of the Act prescribes what issues are to be addressed in the rates policy;

AND WHEREAS any exemptions, rebates or reductions provided for in the Rates Policy must, in terms of section 3(5) of the Act, comply and be implemented in accordance with a prescribed national framework;

NOW THEREFORE the Council of the Ekurhuleni Metropolitan Municipality has adopted the Policy as set out hereunder: -

2. DEFINITIONS

For the purpose of this Policy any word or expression to which a meaning has been assigned in the Act, shall bear that same meaning in this Policy, and unless the context indicates otherwise:

| | |
|---|---|
| <i>“Act”</i> | means the Local Government: Municipal Property Rates Act, No. 6 of 2004 (Act No. 6 of 2004 as amended); |
| <i>“Agricultural purposes ”</i> | means a property that is used primarily for agricultural purposes but, without derogating from section 9 of the Local Government: Municipal Property Rates Act, No. 6 of 2004 (Act No. 6 of 2004 as amended), excludes any portion thereof that is used commercially for the hospitality of guests and excludes the use of the property for the purpose of eco-tourism or for the trading in or hunting of game; |
| <i>“Business and commercial”</i> | means the activity of buying, selling or trade in goods or services and includes any office or other accommodation on the same erf, the use of which is incidental to such business, with the exclusion of the business of mining, agriculture, farming, or inter alia, any other business consisting of cultivation of soils, the gathering in of crops or the rearing of livestock or consisting of the propagation |

and harvesting of fish or other aquatic organisms.

“Council”

Means -

- (a) the “Municipality” and vice versa;
- (b) the Council of the Ekurhuleni Metropolitan Municipality established by Provincial Notice No. 6768, as amended, exercising its legislative and executive authority through the municipality;
- (c) its successor in title; or
- (d) a structure or person exercising a delegated power or carrying out an instruction, where any power in these by-laws has been delegated or sub-delegated, or an instruction given, as contemplated in section 59 of the Act;
- (e) a service provider fulfilling a responsibility under these by-laws, assigned to it in terms of section 81(2) of the act, or any other by-law, as the case may be.

“Exemption”

in relation to the payment of a rate, means an exemption granted by a Municipality in terms of Section 15 of the Act;

“Industrial”

means a branch of trade or manufacturing, production assembling or processing of finished or partially finished products from raw materials or fabricated part, on so large scale that capital and labour are significantly involved.

“Indigent”

means an indigent person referred to in the Indigent Support Policy of the Council

“Multiple purpose”

in relation to a property, means the use of a property for more than one purpose;

“Municipal properties”

means those properties of which the municipality is the registered owner.

“Mining”

means any operation or activity for the purpose of extracting any mineral on, in or under the earth, water or any residue deposit, whether by underground or open working or otherwise and includes any operation or activity incidental thereto;

“Mining Property”

means a property used for mining operations as defined in the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002)

“Newly rateable property”

means any rateable property on which property rates were not levied before the end of the financial year preceding the date on which this Act took effect, excluding:

- (a) a property which was incorrectly omitted from a valuation roll and for that reason was not rated before that date; and
- (b) a property by the Minister by notice in the *Gazette* where the phasing-in of a rate is not justified;

“Owner”:

- (a) in relation to a property referred to in paragraph (a) of the definition of “property”, means a person in whose name ownership of the property is registered;
- (b) in relation to a right to in paragraph (b) of the definition of “property”, means a person in whose name the right is registered;
- (c) in relation to a time sharing interest contemplated in the Property Time-sharing Control Act, 1983 (Act

No. 75 of 1983), means the management association contemplated in the regulations made in terms of section 12 of the Property Time-sharing Control Act, 1983, and published in Government Notice R327 of 24 February 1984;

- (d) in relation to a share block company, the share block company as defined in the Share Block Control Act, 1980 (Act No. 59 of 1980);
- (e) in relation to buildings, other immovable structures and infrastructure referred to in section 17(1)(f), means the holder of the mining right or the mining permit;
- (f) in relation to a land tenure right referred to in paragraph (c) of the definition of “property”, means a person in whose name the right is registered or to whom it was granted in terms of legislation; or
- (g) in relation to public service infrastructure referred to in paragraph (d) of the definition of “property”, means the organ of state which owns or controls that public service infrastructure as envisaged in the definition of “publicly controlled”.
- (h) Provided that a person mentioned below may for the purposes of this Act be regarded by a municipality as the owner of a property in the following cases:
 - (i) a trustee, in the case of a property in a trust excluding state trust land;
 - (ii) an executor or administrator, in the case of a property in a deceased estate;
 - (iii) a trustee or liquidator, in the case of a property in an insolvent estate or in liquidation;
 - (iv) a judicial manager, in the case of a property in the estate of a person under judicial management;
 - (v) a curator, in the case of a property in the estate of a person under curatorship;
 - (vi) a person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufruct or other personal servitude;
 - (vii) a lessee, in the case of a property that is registered in the name of a municipality and is leased by it;
 - (viii) a lessee, in the case of a property to which a land tenure right applies and which is leased by the holder of such right
 - (ix) a buyer, in the case of a property that was sold by a municipality and of which possession was given to the buyer pending registration of ownership in the name of the buyer;

“Permitted use”,

in relation to a property, means the limited purposes for which the property may be used in terms of:

- (a) any restrictions imposed by:
 - (i) a condition of title;

- (ii) a provision of a town planning or land use scheme; or
- (iii) any legislation applicable to any specific property or properties; or
- (b) any alleviation of any such restrictions;

“Pensioner”

means a person whom -

- (i) is at least than 60 years of age on date of application, provided that where couples are married in community of property and the property is registered in both their names , the age of the eldest will be the qualifying factor;
- (ii) is the registered owner of the property;
- (iii) is in receipt of a total monthly income from all sources (including the income of the spouse of the owner) not exceeding an amount to be determined by the council;
- (iv) is the owner/occupant and account holder of the property concerned, which will consist of one dwelling only and no part thereof will be sub-leased;
- (v) must reside permanently on the property concerned which consists of one dwelling only; and
- (vi) a person who is a mentally and/or physically disabled person complying with the requirements in (ii) to (v) above.

“Property”

means:

- (a) immovable property registered in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person;
- (b) a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;
- (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation; or
- (d) public service infrastructure;

“Publicly controlled”

means owned by or otherwise under the control of an organ of state, including:

- (a) a public entity listed in the Public Finance Management Act 1999 (Act No 1 of 1999);
- (b) a municipality; or
- (c) a municipal entity as defined in the Municipal Systems Act 32 of 2000

“Public service infrastructure”

means publicly controlled infrastructure of the following kinds:

- (a) national, provincial or other public roads on which goods, services or labour move across a municipal boundary;
- (b) water or sewer pipes, ducts or other conduits, dams, water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;

- (c) power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels, forming part of a scheme for transporting such fuels;
- (e) railway lines forming part of a national railway system;
- (f) communication towers, masts, exchanges or lines forming part of a communications system serving the public;
- (g) runways, aprons and the air traffic control unit at national or provincial airports, including the vacant land known as the obstacle free zone surrounding these, which must be vacant for the air navigation purposes;
- (h) channels, basins, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports or navigational aids;
- (i) any other public controlled infrastructure as may be prescribed; or
- (j) a right registered against immovable property in connection with infrastructure mentioned in paragraphs (a) to (i);

“Public Service Purposes”

in relation to the use of a property, means property owned and used by an organ of state as-

- (a) Hospitals and clinics;
- (b) schools, pre-schools, early childhood development centres or further education and training colleges;
- (c) national and provincial libraries and archives;
- (d) police stations;
- (e) correctional facilities; or
- (f) courts of law,

but excludes property contemplated in the definition of "public service infrastructure";

“Rate”

means a municipal rate on property envisaged in Section 229(1)(a) of the Constitution;

“Rateable property”

means property on which a municipality may in terms of Section 2 of the Act levy a rate, excluding property fully excluded from the levying of rates in terms of Section 17 of the Act;

“Ratio”

in relation to section 19 of the Act, means the relationship between the cent amount in the Rand applicable to residential properties and different categories of non-residential properties: Provided that the two relevant cent amounts in the Rand are inclusive of any relief measures that amount to rebates of a general application to all properties within a property category;

“Rebate”,

in relation to a rate payable on a property, means a discount granted in terms of Section 15 of the Act on the amount of the rate payable on the property;

“Reduction”,

in relation to a rate payable on a property, means the lowering in terms of Section 15 of the Act of the amount

| | |
|--------------------------------------|---|
| | for which the property was valued and the rating of the property at that lower amount; |
| <i>“Residential property”</i> | means a property included in a valuation roll in terms of section 48(2)(b) in respect of which the primary use or permitted use is for residential purposes without derogating from section 9 of the Act; |
| <i>“Smallholding”</i> | refers to property, whether improved by the construction of a dwelling or not, not large enough to support a commercially viable farming operation, but able to provide a subsistence level of output to the owner of the property; |
| <i>“Sporting bodies”</i> | refers to organisations whose sole purpose is to use the property owned by them for sporting purposes, whether for gain or not; |
| <i>“Vacant land”</i> | means a land where no immovable improvements have been erected but excludes farms and small holdings not used for any purpose. |

3. BACKGROUND

3.1 INTRODUCTION

The Local Government Municipal Property Rates Act (Act no 6 of 2004 as amended) requires a municipality to develop and adopt a rates policy consistent with the Act on the levying of rates on rateable property in the Municipality.

Property rates are the most reliable source of revenue for the Municipality. Services financed from rates include installation and maintenance of streets, roads, sidewalks, street lighting, and storm water drainage facilities, building and operating clinics, parks, recreational facilities and cemeteries. Property rates revenue is also used to fund municipal administration such as computer equipment, stationery, and costs of Governance, such as Council and community meetings, which facilitate community participation on issues of Integrated Development Plans (IDPs) and municipal budgets.

The Council has resolved, in compliance with the provision of the Act, to impose a rate and as a consequence, this rates policy has been developed within the parameters of the applicable legislation relating to property rates.

3.2 GUIDING PRINCIPLES

The following principles will ensure that the Municipality treats persons liable for rates equitably in terms of the Act:

- (a) Ratepayers with similar properties will pay similar levels of rates
- (b) The ability of ratepayers to pay their rates will be taken into account by the Council.
- (c) The determination of the tariffs and the levying of rates must allow the Council to promote local, social and economic development.

3.3 STRATEGIC FOCUS

In determining the rates, exemptions, rebates and reductions, the Council may consider the following:

- (a) the impact of rates on the community,
- (b) the impact of rates on business
- (c) the Integrated Development Plan (IDP) of Council
- (d) the impact of rates on the Local Economic Development (LED) strategy of the Council
- (e) the impact of the new rating system on poor residential households and agricultural communities
- (f) when determining the rates on properties the following aspects must be taken into account namely:
 - (i) the effects of rates on the poor, including appropriate measures in order to alleviate the rates burden on them; and
 - (ii) the effect of reaching the objectives set out in paragraph 2.4 of this policy.
- (h) in developing or amending this policy, the Council commits itself to a process of community participation as envisaged in section 4 of the Act and chapter 4 of the Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA). In addition to the requirements laid down in the MSA, the Council will engage interested parties and structures, such as ratepayer organisations, directly in the process of community participation. In addition, use will be made of established community consultation structures, such as Ward committees, to ensure thorough participation with regard to the afore-mentioned process.

3.4 OBJECTIVES OF THE POLICY

The key objectives of the policy are to:

- (a) ensure that all owners of rateable property are informed about their liability to pay assessment rates;
- (b) specify relief measures for ratepayers who may qualify for relief or partial relief in respect of the payment of rates through exemptions, reductions and rebates contemplated in paragraph 8 of this policy;
- (c) set out the criteria to be applied by the Council if it increases rates and levies differential rates on different categories of property;
- (d) provide for categories of public benefit organisations, approved in terms of Section 30(1) of the Income Tax Act, 1962 (Act no 58 of 1962) as amended, which ratepayers are eligible for exemptions, reductions and rebates and therefore may apply to the Council for relief from rates;
- (e) recognise the state, organs of state and owners of public service infrastructure as property owners;
- (g) not discourage the development of property;
- (h) ensure that all persons liable for rates are treated equitably as required by the Act.

SECTION B: CATEGORIES OF PROPERTIES

4. DIFFERENT CATEGORIES OF RATEABLE PROPERTY

- 4.1 The categories of property are determined according to actual *use* of the property irrespective of the permitted use in terms of the Town Planning scheme.
- 4.2 The Council has determined the following categories of property for purposes of rating:
- (a) residential properties;
 - (b) industrial properties;
 - (c) business and commercial properties;
 - (d) agricultural properties;
 - (e) mining and quarries;
 - (f) public service purpose properties;
 - (g) public service infrastructure;
 - (h) public benefit activity property;
 - (i) vacant land;

Other Categories

- (j) state-owned properties;
 - (k) municipal properties;
 - (l) privately owned towns serviced by the owner;
 - (m) informal settlements;
 - (n) protected areas;
 - (o) properties on which national monuments are proclaimed;
 - (p) Places of worship
- 4.3 The Council may determine additional categories of rateable property, provided that the determination of such property categories does not circumvent the categories of rateable property that must be determined in terms of subsection of the act.
- 4.4 The Council has determined the following ratios relevant to each category to the rate on residential properties for purposes of tariff rating:

| Category | Ratio |
|--|--------------|
| (a) residential properties | 1:1.00 |
| (b) industrial properties | 1:2.50 |
| (c) business and commercial properties | 1:2.00 |
| (d) agricultural properties | 1:0.25 |
| (e) mining and quarries | 1:3.00 |
| (f) public service purpose properties | 1:2.00 |

| | | |
|-------------------------|--|--------|
| (g) | public service infrastructure | 1:0.25 |
| (h) | public benefit activity properties | 1:0.25 |
| (i) | vacant land | 1:4.00 |
| <u>Other Categories</u> | | |
| (j) | state-owned properties | 1:2.00 |
| (k) | municipal properties | 1:2.00 |
| (l) | privately owned towns serviced by the owner | 1:1.00 |
| (m) | informal settlements | 1:1.00 |
| (n) | properties on which national monuments are proclaimed; | 1:1.00 |

5. LEVYING OF RATES

- 5.1 When levying rates, the Council must, subject to section 7 (2) of the Act levy rates on all rateable property in its area.
- 5.2 Section 7(1) of the Act does not: -
- (a) oblige a municipality to levy rates on –
 - (i) properties of which the Council is the owner;
 - (ii) public service infrastructure
 - (iii) properties referred to in (b) of the definition of “property” of this policy; or
 - (iv) properties in respect of which it is impossible or unreasonably difficult to establish a market value because of legally insecure tenure resulting from past racially discriminatory laws or practices; or
 - (b) prevent the Council from granting in terms of section 15 (1) of the Act exemptions from, rebates on or reductions in rates levied.

6. SPECIAL RATING AREAS

- 6.1 The Council may by resolution establish special rating areas and levy an additional rate on property in that area for the purpose of raising funds for improving or upgrading that area.
- 6.2 Any exclusion, exemption, reduction or rebate granted in terms of this policy does not affect the additional rate payable by the owner in a Special Rating Area.

7. MULTIPURPOSE PROPERTIES

- 7.1 Where two thirds or more of a property is used for residential purposes, the whole property will be placed in the residential category. The two third dominant use will apply. If more than one third is used for purposes other than residential, the entire property will be placed in the use category applicable to more than one third uses.
- 7.2 Where one use is exempt, the property will be categorised under a “Multiple Use” category and the exempt portion will be treated separately to the

remainder. Where the remainder is also used for multiple uses, “dominant use” will apply.

- 7.3 In the case of agricultural property, the multiple use categories will apply where:
- a) a portion is used for residential purposes other than residential purposes that is incidental to the farming activity; or
 - b) a portion is used for non-residential and non-agricultural purposes.

8. PHASING IN OF CERTAIN AREAS

The assessment rates on newly rateable properties, as defined in the Act, will be phased in as determined in section 21 of the Act.

SECTION C: DIFFERENTIAL RATING

9. CATEGORIES OF PROPERTIES AND CATEGORIES OF OWNERS OF PROPERTY

- 9.1 The Council has determined the following categories of owners of property for purposes :
- (a) Residential
 - (b) Indigent owners
 - (c) Child headed households
 - (d) Pensioners
 - (e) Disability grantees/medically boarded persons
 - (f) Owners of property situated within an area affected by a natural disaster
 - (g) Municipal
 - (h) Sporting bodies
 - (i) Public benefit organizations/Non Governmental Organisations (NGO's) and Cultural Organisations
 - (j) Protected areas, Nature Reserves and Conservation Areas
 - (k) Religious organisations
 - (l) Welfare Organisations
 - (m) Public & private schools, universities & colleges.
 - (n) Owners of property situated within an area affected by any other serious adverse social or economic conditions
 - (o) Owners of properties used for bona fide farming purposes
- 9.2 The Council may determine other categories of owners of property for purposes of exemptions, reductions, rebates and differential rating as the Council may from time to time identify.

SECTION D: RELIEF MEASURES RELATED TO CATEGORIES OF PROPERTY AND CATEGORIES OF OWNERS OF PROPERTIES.

10. CRITERIA FOR EXEMPTIONS, REDUCTIONS AND REBATES

The following will be taken into consideration for the purpose of granting exemptions, reductions and rebates:

- (a) Indigent status of the owner of a property
- (b) Sources of income of the owner of a property; and
- (c) Social or economic conditions of the area where the owners of property are located e.g. an area declared by the national or provincial government to be a disaster area within the meaning of Disaster Management Act 57 of 2002, to the extent that the property was significantly negatively affected.

11. EXEMPTIONS, REDUCTIONS AND REBATES

11.1 RESIDENTIAL

The Council may grant a reduction in the market value of residential property by resolution of the Council, to be read with section 17(1) (h) of the Act regarding impermissible rates on the first R15 000.

11.2 INDIGENT OWNERS

The Council has adopted an Indigent Support Policy that provides for the alleviation of the rates burden on the low income sectors of the community within the Municipality. Owners of property who qualify for the assistance provided by this Policy must make application to access the relief provided.

Deemed indigent relief will be granted based on property value as approved by Council.

11.3 CHILD HEADED HOUSEHOLDS

The Council has adopted an Indigent Support Policy that provides for the alleviation of the rates burden on child headed households within the Municipality. Qualifying households must make application to access the relief provided in terms of Indigent Support Policy.

11.4 PENSIONERS

Pensioners may receive a reduction and a rebate of an amount as determined by Council from time to time, subject to the following –

The applicant must:

- (a) be the registered owner of property within the following categories of properties :
 - Residential;
- (b) produce a valid South African identity document ;

- (c) must be at least 60 years of age upon application, provided that where couples are married in community of property and the property is registered in both their name, the age of the eldest will be the qualifying factor;
- (d) be in receipt of a total monthly income from all sources (including the income of the spouse of the owner) not exceeding an amount as determined by Council from time to time;
- (e) a once-off application must be submitted with the implementation of every new valuation roll. The applicant applies only once for the reduction and it remains valid for the duration of the valuation roll.
- (f) not be in receipt of an indigent assessment rate rebate;
- (g) must reside permanently on the property concerned which consists of one dwelling only and no part thereof is sub-let; and
- (h) confirm the aforementioned details by means of a sworn affidavit.

The pensioner's reduction and rebate will lapse:

- (a) on death of the applicant;
- (b) on alienation of the property;
- (c) when the Applicant ceases to reside permanently on the property;
- (d) on expiry of validity period of valuation roll.

11.5 DISABILITY GRANTEES AND / OR MEDICAL BOARDED PERSONS

Disability grantees and or medically boarded persons may receive a reduction and a rebate of an amount as determined by Council from time to time, subject to the following -

The applicant must:

- (a) be in possession of a disability card or provide medical proof of disability;
- (b) be the registered owner of property within the following categories of properties :
 - Residential;
- (c) produce a valid South African identity document;
- (d) not be in receipt of an indigent assessment rate rebate;
- (e) must reside permanently on the property concerned which consists of one dwelling only and no part thereof is sub-let;
- (f) a once-off application must be submitted with the implementation of every new valuation roll. The applicant applies only once for the reduction and it remains valid for the duration of that valuation roll; and
- (g) confirm the aforementioned details by means of a sworn affidavit.

The disability and medically boarded reduction will lapse:

- (a) on death of the applicant;
- (b) on alienation of the property; or
- (c) when the applicant ceases to reside permanently on the property;
- (d) on expiry of validity period of valuation roll

11.6 NATURAL DISASTERS

Properties that have been damaged by a natural disaster, as defined in terms of the Disaster Management Act 57 of 2002, shall be re-valued as at date of such natural disaster, in accordance with the Act.

On application by the owner of the property, as defined, the Council may fully or partially suspend the levying of rates on that property, as determined by Council from time to time.

11.7 MUNICIPAL

Property owned by Council and used for purposes of service delivery may be exempt, by Council Resolution, from paying rates.

11.8 SPORTING BODIES

Sporting bodies may, on application, be granted a rebate as determined by Council from time to time. Applicants must produce a tax exemption certificate issued by the South African Revenue Services (SARS) as contemplated in Part 1 of the Ninth Schedule of the Income Tax Act, 1962 (Act 58 of 1962).

The rebate will lapse:

- (a) on alienation of the property; or
- (b) if any such land or building is used for any purpose other than the purpose so exempted;
- (c) on expiry of validity period of valuation roll

11.9 PUBLIC BENEFIT ORGANISATIONS / NON-GOVERNMENTAL ORGANISATIONS AND CULTURAL ORGANISATIONS

The following Public Benefit Organisations/ Non Governmental Organisations may be exempted from paying rates as determined by council from time to time:

a) Welfare & Humanitarian Institutions

Properties used exclusively as an orphanage, non-profit retirement villages, old age home or other non-profit institution for the benefit of the public or a section thereof, provided that any profits from the use of the property are used entirely for the benefit of the institution and / or for charitable purpose.

b) Animal Welfare

Property registered in the name of and used by institutions / organisations whose exclusive aim is to protect birds, reptiles and other animals on a non-profit basis.

c) Cultural

- (i) Property registered in the name of a declared institution in terms of the Cultural Institutions Act (Act 119 of 1998 as amended) promoting the cultural aims as defined in section (6)(a) and (b) of

the Nineth Schedule to the Income Tax Act (Act 58 of 1962 as amended) which reads as follows:

- (a) The advancement, promotion or preservation of the arts, culture or customs.
- (b) The promotion, establishment, protection, preservation or maintenance of areas, collections or buildings of historical or cultural interest, national monuments, national heritage sites, museums, including art galleries, archives and libraries.
- (ii) Property registered in the name of a cultural organization or any organization which is, in the opinion of the municipality, promoting the cultural aims as defined in section (6)(c) of the Nine schedule to the Income Tax Act (Act 58 of 1962 as amended).

Exemptions may be subject to the following conditions:

- (a) Application must be made in writing in the prescribed format and will be valid for duration of validity period of valuation roll;
- (b) Applicants must produce a tax exemption certificate issued by the South African Revenue Services (SARS) as contemplated in Part 1 of the Ninth Schedule of the Income Tax Act, 1962 (Act 58 of 1962);
- (c) The City Manager or his/her nominee must approve all applications;
- (d) The Council retains the right to refuse exemptions if the details supplied in the application form are incomplete, incorrect or false;
- (e) If during the currency of any financial year, any such land or building is used for any purpose other than the purpose so exempted, the Council shall impose rates thereon or on such portion so used, at a rate proportionate to the period of such use.

The rebate will lapse:

- (a) on alienation of the property; or
- (b) if any such land or building is used for any purpose other than the purpose so exempted;
- (c) on expiry of validity period of valuation roll

11.10 PUBLIC AND PRIVATE SCHOOLS, UNIVERSITIES AND COLLEGES

The following categories of owners may receive a rebate as determined by Council from time to time -

- (a) Public schools which are State funded:
- (b) Private schools which are not State funded in terms of section 34 of the South African Schools Act, 1996 (Act No. 84 of 1996) and are registered as independent schools in terms of the South African Schools Act, 1996 (Act No. 84 of 1996)
- (c) Universities; and
- (d) Technical and other colleges

11.11 OWNERS OF PROPERTY SITUATED WITHIN AN AREA AFFECTED BY ANY OTHER SERIOUS ADVERSE SOCIAL OR ECONOMIC CONDITIONS

A property classified by Council Resolution under this category may receive a rebate as determined by Council from time to time.

11.12 OWNERS OF PROPERTIES USED FOR BONA FIDE FARMING PURPOSES

Properties used for bona fide agricultural purposes with the property owner deriving his principle source of income from produce of the land may receive a rebate as determined by Council from time to time.

11.13 VACANT UNIMPROVED LAND

Vacant unimproved land on which a dwelling unit(s) is/are being constructed and which will be used exclusively for Residential purposes may receive a rebate as determined by Council from time to time.

11.14 IMPERMISSIBLE RATES

In terms of section 17 of the act, rates in respect of the following categories of properties or use of property will be deemed impermissible –

- (a) *Public Services Infrastructure* - subject to paragraph (b) on the first 30% of the market value of property.
- (b) *Public Services Infrastructure* - on any property referred to in paragraphs (a), (b), (e), (g) and (h) of the definition of "public service infrastructure"
- (c) *Protected Areas* - on those parts of a special nature reserve, national park or nature reserve within the meaning of the National Environmental Management: Protected Areas Act, 2003 (Act No. 57 of 2003), or of a national botanical garden within the meaning of the National Environmental Management: Biodiversity Act, 2004 (Act No. 10 of 2004), which are not developed or used for commercial, business, agricultural or residential purposes;
- (d) *Mining* - on mining rights or a mining permit within the meaning of the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002), excluding any building, other immovable structures and infrastructure above the surface of the mining property required for purposes of mining;
- (e) *Religious Organizations* - on a property registered in the name of and used primarily as a place of public worship by a religious community, including the official residence registered in the name of that community which is occupied by the office-bearer of that community who officiates at services at that place of worship.

11.15 EXEMPTION, REDUCTION AND REBATES EFFECTIVE DATE

- 11.15.1 Exemptions and Reductions as prescribed in terms of the Act will be applicable as from effective date of entry in current general valuation roll or supplementary valuation roll, compiled in terms of sections 32 and 78 of the Act.
- 11.15.2 Application based rebates as approved by council from time to time, will be effective as from date when all qualifying criteria in terms of rebate has been met, but not exceeding the effective date of entry in current general valuation roll or supplementary valuation roll, compiled in terms of sections 32 and 78 of the Act.

SECTION E: RATES INCREASE /DECREASE

12. CRITERIA FOR INCREASING OF RATES.

The Council must annually consider the levying of rates during the budget process and, if necessary, amend its rates policy taking into account public comments and inputs.

In determining the level of increases in the rates, the criteria to be applied include the following:

- (a) the inflation rate as indicated by the consumer price index;
- (b) Need to manage rates shocks.
- (c) Affordability of rates to ratepayers
- (b) take into consideration the medium term budget growth factors as determined by National Treasury guidelines.

SECTION F: LIABILITY FOR RATES

13.1 LIABILITY FOR RATES:

- ▶ Rates levied on a property must be paid for by the owner of the property.
- ▶ Joint owners are jointly and severally liable for payment of rates on the property.

13.2 AMOUNT DUE FOR RATES:

A rate in the rand is determined annually by the Council during the budget process.

13.3 THE EFFECTIVE DATE OF THE RATES POLICY:

The rates policy takes effect from the 1st July 2018.

13.4 METHOD AND TIME OF PAYMENT:

Council shall recover an annual levy payable on a monthly basis in twelve (12) near equal instalments.

13.5 PAYMENT AND RECOVERY OF RATES:

Payment and recovery of rates shall be in accordance with Council' relevant policies and by – laws.

14. SHORT TITLE

This policy shall be called the Property Rates Policy of the Ekurhuleni Metropolitan Municipality.

ADDENDUM

LEGAL REQUIREMENTS THAT ALL MUNICIPALITIES MUST COMPLY WITH IN TERMS OF THE MUNICIPAL PROPERTY RATES ACT, 2004 (ACT NO 6 OF 2004) WITH REGARD TO RATES POLICY DEVELOPMENT

This addendum does not contain all provisions of the Act that must be complied with in the development of rates policy, but list just a few key provisions that the municipality deems necessary for residents / ratepayers to be aware of so that they get a full picture of rating issues that will affect them.

1. IMPERMISSIBLE RATE

A municipality may not levy a rate on the following in terms of section 17(1) of the Act :

- On the first **R 15 000.00** of the market value of public service infrastructure.
- Any part of the seashore in terms of section 17(1)(b) of the Act.
- Any part of the territorial waters of the Republic in terms of section 17(1)(c) of the Act.
- Any island of which the state is the owner in terms of section 17(1)(d) of the Act.
- Protected areas in terms of section 17(1)(e) of the Act.
- Mineral rights in terms of section 17(1)(f) of the Act.
- Properties belonging to land reform beneficiaries in terms of section 17(1)(g) of the Act.
- On the first **R 15 000.00** of the market value of residential properties in terms of section 17(1)(h) of the Act.
- Religious institutions in terms of section 17(1)(i) of the Act.

2. COMPULSORY PHASING IN OF CERTAIN RATES

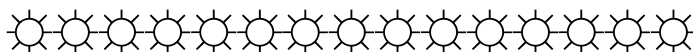
Rates levied on a newly rateable property must be phased in over a period of three or four years depending on the ownership and use of such a property in terms of section 21 of the Act.

3. PRESCRIBED RATIOS

The municipality will comply with the ratios set by the Minister of Provincial and Local Government in concurrence with the Minister of Finance in terms of section 19 of the Act.

4. LIMITS ON ANNUAL INCREASES OF RATES

The municipality will comply with the notice issued by the Minister of Provincial and Local Government in concurrence with the Minister of Finance regarding the set upper limit on the percentage by which rates on properties or a rate on a specific property may be increased in terms of section 20 of the Act.



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Annexure D4

PROVISION OF FREE BASIC ELECTRICITY POLICY AND PROVISION OF FREE BASIC WATER SUPPLY SERVICES POLICY

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Annexure D4.1

PROVISION OF FREE BASIC ELECTRICITY POLICY

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PROVISION OF FREE BASIC ELECTRICITY POLICY

1. OBJECTIVES OF POLICY

- ▶ To comply with the provisions of the Constitution of the Republic of South Africa;
- ▶ To comply with the provisions of the Electricity Regulation Act 4 of 2006;
- ▶ To ensure compliance with the Municipal Systems Act No 32, 2000;
- ▶ To comply with the provisions of the Municipal Finance Management Act 56, 2003;
- ▶ To comply with the Electricity Pricing Policy Government Notice 1398 of 2008
- ▶ To comply with the Electricity Basic Services Support Tariff (Free Basic Electricity) Policy Government Notice 1693 Of 2003; and
- ▶ To ensure affordability of basic services to the community.

FBE ALLOCATION IS 100 kWh units per month.

The following policy provides guidelines to determine a uniform approach for the allocation of free basic electricity inside the boundaries of the City of Ekurhuleni.

Note: Electricity used for business purposes is excluded from the free basic electricity allocation.

2. ALLOCATION OF FREE BASIC ELECTRICITY

Free basic electricity to City of Ekurhuleni customers may be allocated in accordance with the following provisions:

- 2.1 when provided for in the City of Ekurhuleni Policy on Free Basic Electricity, subject to a cut-off point of 1,000 kWh units per month (based on historical consumption levels):
 - 2.1.2 residents using electricity for residential purposes within the Ekurhuleni supplied area, to the inclining block tariff or
 - 2.1.3 residents using electricity for residential purposes within the Eskom supplied area inside City of Ekurhuleni demarcated boundaries on the Eskom Home light tariff, and a contract exists whereby Ekurhuleni pays Eskom to supply free basic electricity to these customers.
- 2.2 when the user entity is a non-profit organization registered in terms of the provisions of the Non-profit Organization Act, 1997, for the following specific purposes:
 - 2.2.1. the care of old people;
 - 2.2.2 the care of children;
 - 2.2.3 the care of the physically or mentally challenged;
 - 2.2.4 the care of animals; and
 - 2.2.5 providing food to homeless people (soup kitchen or similar).

The procedure for the application for the free basic electricity allocation for the user entity falling within the categories defined in sections 2.2.1 to 2.2.5 will be as described in section 2.

2.3 when the applicant residing in a private residential complex that receives electricity in bulk from Ekurhuleni satisfies the criteria listed below:

- The applicant shall be a pensioner and/or physically challenged person;
- When the applicant uses electricity at a historical average of no more than 1,000 kWh per month (calculated over a 12-month period or if occupation took place less than 12 months prior to the date of application calculated from the date of occupation);
- To be in line with the pensioner/indigent income criteria as stated in the indigent and rebate policies.
- The applicant is the occupant of the dwelling concerned, which dwelling consists of one dwelling only and no part thereof will be sublet.
- Approved indigents residing in a private residential complex and is supplied with electricity by a bulk meter.

3. APPLICATION PROCEDURE FOR NON PROFIT ORGANISATIONS

Application procedures for organizations mentioned in section 2.2

- 3.1 The user entity shall apply for the FBE allocation on the prescribed form to be obtained from the Finance Department.
- 3.2 In the case of the user entity providing accommodation to people defined in section 2.2.1 to 2.2.3 the account holder will confirm the number of residential units and beds by means of a sworn affidavit and the provisions of section 5.1 will apply in terms of the number of beds.
- 3.3 In the case of the user entity caring for animals the kWh billed on the last account of the user entity prior to the application for the FBE allocation being made will be used to calculate the number of FBE allocations that the user entity qualifies for in accordance with section 5.2.
- 3.4 In the case of the user entity providing food to homeless people the kWh billed on the last account of the user entity prior to the application for the FBE allocation being made will be used to calculate the number of FBE allocations that the user entity qualifies for in accordance with section 5.2.

4. APPLICATION PROCEDURE FOR INDIVIDUALS RECEIVING ELECTRICITY IN BULK

Application procedure for qualifying individuals/indigents residing in a private residential complex that receives electricity in bulk from Ekurhuleni

- 4.1 The applicant shall apply for the FBE allocation on the prescribed form to be obtained from the Finance Department;
- 4.2 A sworn affidavit confirming that the applicant satisfies the relevant criteria as detailed in section 2.3 must accompany the application.
- 4.3 The application must also be accompanied by an affidavit from the Board of Trustees or owner stating that an allocation of free basic electricity, when received on a monthly basis in the form of a rebate on the bulk account, shall be passed through to the approved applicant, and also indicate that the applicant's electricity consumption per

month is below the determined average of 1000kWh units per month, measured over the last 12 months (or lesser time period, if not residing there for 12 months).

- 4.4 Only the FBE allocation portion of the IBT tariff structure shall apply to indigents residing in private residential complexes.

5. GENERAL PROVISIONS

The following general provisions shall be adhered to:

- 5.1 In the case of qualifying organizations where no residential units exist, every four beds or part thereof will be deemed as one residential unit thus qualifying for one FBE allocation. If a qualifying organisation provides both residential units as well as a section comprising of beds; one FBE allocation per residential unit will be applicable plus an FBE allocation per four beds or part thereof in the aforementioned section.
- 5.2 In the case of qualifying organisations as defined in sections 2.2.4 and 2.2.5, an FBE allocation will be allocated as per table below, up to a maximum of 5 FBE allocations, based on the average kWh consumption calculated over a 12 month period or if occupation took place less than 12 months prior to the date of application calculated from the date of occupation of the user entity prior to the application for the FBE allocation being made.

| Calculated average kWh consumption or part thereof | Qualifying kWh FBE allocation per month |
|--|---|
| If between 1 – 1000 kWh | 100kWh FBE will be allocated |
| If between 1001 – 2000 kWh | 200kWh FBE will be allocated |
| If between 2001 – 3000 kWh | 300kWh FBE will be allocated |
| If between 3001 -4000 kWh | 400kWh FBE will be allocated |
| From 4001 kWh upwards | 500kWh FBE will be allocated |

- 5.3 All applications must be renewed annually.

6. DEVIATION FROM THE FREE BASIC ELECTRICITY POLICY

Any deviation from the free basic electricity policy must be approved in writing by the Chief Financial Officer.

NOTE: The reference to “they” in the above sentences is a reference to the department concerned and its personnel

The term “shall” is used throughout this document to indicate those provisions which, are considered to be mandatory.

The term “should” is used to indicate those provisions which, although not mandatory, are provided as a recognized means of meeting the requirements.

The term “may” is used to indicate something which is permitted. The term “can” is used to indicate a possibility or a capability.



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Annexure D4.2

PROVISION OF FREE BASIC WATER SUPPLY SERVICES POLICY

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PROVISION OF FREE BASIC SERVICES - WATER AND WASTEWATER

1. APPLICATION AND SCOPE

This policy is applicable to households with property values not exceeding R750 000 and approved indigents residing within the City of Ekurhuleni.

The policy will be effective from 1 July 2018.

2. OBJECTIVES OF THE POLICY

The objectives of the policy are -

- To realize everyone's constitutional right of access to sufficient water
- To grant households with property values not exceeding R750 000 an equitable and affordable basic (free) portion of the water and wastewater services
- To support the poor, approved as Indigents in terms of the Council's relevant policy, with a basic (free) portion of the water and wastewater services
- To ensure compliance to the applicable terms of the Constitution of the Republic of South Africa, Act 108 of 1996, the Local Government Municipal Systems Act 32 of 2000 and the Municipal Budget and Reporting Regulations contained in General Notice 393 in Government Gazette 3241 of 17 April 2009.

3. LEGISLATIVE FRAMEWORKS

3.1 Constitution of the Republic of South Africa, Act 108 of 1996

Section 27 (1) (b) determines –

“Everyone has the right to have access to sufficient food and water”

3.2 Local Government Municipal Systems Act, 32 Of 2000

Section 74 (2) (c) of the Local Government Municipal Systems Act; 32 of 2000 determines:

- (c) *poor households must have access to at least basic services through –*
 - (i) *Tariffs that cover only operating and maintenance cost,*
 - (ii) *Special tariffs or life line tariffs for low levels of use or consumption of services or for basic levels of service: or*
 - (iii) *Any other direct or indirect method of subsidization of tariffs for poor households”*

3.3 New Municipal Budget and Reporting Regulations Effective From 1 July 2009: General Notice 393 in the Government Gazette 3241 of 17 April 2009

In terms of the above mentioned General Notice, new Municipal Budget and reporting regulations came into effect as from 1 July 2009. Section 7 of these regulations determines:

“The Municipal Manager of a Municipality must prepare, or take all reasonable steps to ensure the preparations of the budget-related policies of the Municipality, or any necessary amendments to such policies, in accordance with the legislation applicable to those policies for tabling in the Municipal Council by the applicable deadline specified by the Mayor in terms of Section 21(1)(b) of the Act (Municipal Finance Management Act 56 of 2003).”

4. FREE BASIC SERVICES PRINCIPLES

4.1 The Right of Access to Basic Water and Waste Water (Sanitation):

Everyone has the right to have access to sufficient water and the CoE is committed to promote the realisation of this right. The CoE will therefore provide a basic (free) portion of the water and waste water services to poor households (registered indigent households) and households with property values not exceeding R750 000.

4.2 Consumer Responsibilities

The right to basic water supply and waste water services comes with a corresponding responsibility to use water and waste water services responsibly and with due care. The responsibilities of the consumer are stipulated in the Water Supply and Wastewater By-Laws.

4.3 User Charges (Retail)

Charging for water and waste water services is essential in order to generate sufficient funds for operating, maintaining and investing in water and waste water systems but at the same time recognizing the need for affordability. Sound business principles within a sound subsidy framework are therefore essential. This includes good governance, sound accounting, adequate provision for depreciation, adequate spending on maintenance and replacement of assets, effective and efficient use of resources and income (including subsidies) which covers expenses.

5. APPLICATIONS AND IMPLEMENTATION

5.1 Six Kilolitre Free Per Month

The block tariff adopted by Council for the use of the water and waste services exclusively for household purposes, provides for household with a property value not exceeding R750 000 to receive 6 kilolitre - free water and wastewater services per month. This also includes –

- a) Hostels and old age homes where every 4 beds are deemed to be a residential unit.
- b) Where the City's Human Settlement Department accommodates two or three beneficiaries (families) per stand, each beneficiary (family) is deemed to be a residential unit.
- c) A small business conducted as a primary right in terms of a Town Planning Scheme, or a home enterprise conducted in terms of the relevant Council Policy, from a property used for household purposes and the connection size is either a 15 mm or 20mm connection.
- d) Spaza Shops, defined as an area of a dwelling unit and or associated immovable outbuilding no more than 20m² in extent, used by the occupant of such a dwelling unit for the purposes of selling basic household goods.

Households with property values exceeding R750 000 shall no longer receive 6 kilolitre free water and wastewater services per month.

5.2 Nine Kilolitre Free Per Month

From the 2006/2007 financial year the Council approved the provision of 9 kilolitre free water and wastewater services per month for Registered Indigents qualifying in terms

of the Councils approved Indigent Policy. The basic (free) portion of the water and wastewater services is financed by means of the equitable share received from National Government and cross subsidized by means of a Council adopted block tariff. Payment is required for consumption in excess of the basic (free) water and wastewater supply service to ensure sustainability of the services.



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Annexure D5

WASTE MANAGEMENT TARIFF POLICY

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WASTE MANAGEMENT TARIFF POLICY

1. PREAMBLE

Managing waste in a sustainable and self-sufficient way remains one of the key challenge for the City of Ekurhuleni and one in which every stakeholder in the city has a role to play. Economic development activities, a growing population and increasing rates of industrialization and urbanization have resulted in increased volumes of waste generation. This trends puts pressure on waste management facilities both in terms of collection and disposal of waste. The increasing volumes and diversity of the waste streams directly affects the complexity of its management that requires effective waste management policies and programmes. The growing unemployment rate has in recent times pushed a number of poor and vulnerable residences into indigence. The City of Ekurhuleni has subsequently adopted a pro-poor approach to service delivery using amongst many monitoring outreach programmes such as “Siyaqhuba” to ensure that Ekurhuleni is kept clean at all times. The City is implementing programmes such as Keep Ekurhuleni Clean Programme, and engaging community based cooperatives in the informal settlements and creating response teams for eradication of illegal dumping. The growing demand for zero rated services attributed to the tough economic environment and the growing population in the informal settlements makes funding for provision of waste management services even more complex and costly.

While waste management services in City of Ekurhuleni are generally of an acceptable standard, the city strives for a continued improvement in four broad areas:

- i. extending access to basic waste management services (to all formal and informal residences);
- ii. efficient and effective supply of services (through service optimization, improved resource management, waste minimization, public awareness and education, reducing expenditure and increasing efficiency);
- iii. managing and improving the quality of services provided (through a performance management system to effect improved service responsiveness, and greater customer care); and
- iv. the maintenance of waste management infrastructure to minimize the cost of replacement or development of capital assets and infrastructure.

The policy deals with residence waste management, non- residence waste management services as provided by City of Ekurhuleni or on behalf of City of Ekurhuleni. This policy provides guidance and establishes the principles that informs provision of waste management services in the City of Ekurhuleni.

2. POLICY PRINCIPLES

The following broad principles have been used to inform the development of the policy -

2.1. Access to basic services

Waste Management tariffs must be characterized to respond to the National Outcomes Based Approach as approved by Cabinet. Outcomes 8 for 2014 to 2019 as published as annexures to the Medium Term Strategic Framework are directly linked to the mandate of the Waste Management services. Outcomes 8: seeks to address itself to Sustainable Human Settlements and an improved quality of residence life linked to output 2: aimed at improved access to basic service. In practice the tariffs should be “pro-poor” in their orientation and should seek to ensure that a minimum basic level of service is affordable for all residences, ensuring that all formal and informal residences have access to basic waste management services. The policy must support the viability and sustainability of waste management services to the poor. Formal and informal residences must have access to at least basic services through –

- 2.1.1 a free basic bagged service for informal residences;
- 2.1.2 a basic 240l container or a bagged service for formal residences;
- 2.1.3 tariffs that cover capital costs, operating and maintenance costs; and
- 2.1.4 Any other direct or indirect method of subsidization of tariffs for poor residences.

2.2. Non-Discrimination and Fairness

City of Ekurhuleni is committed to fairness.

The policy should be fair to ensure that it treats all users in similar circumstances in the same way. In other words, it treats waste management service users equitably in the application of tariffs and does not unfairly discriminate between users. Waste management tariffs may, however, differentiate or discriminate between different categories of users, debtors, service providers, services, service standards, **geographical areas** and other matters. Such differentiation or discrimination may not necessarily be in breach of this Policy as long as the differentiation or discrimination does not amount to unfair discrimination.

2.3. Cost reflectivity

Waste management tariffs must include all the costs reasonably associated with rendering the service including capital, operating, maintenance, administration and replacement costs and interest charges. Correct cost allocations should be made that will allow costs to be mapped against the tariffs required so as to reflect those costs and prevent residence users cross subsidizing non-residence users. It should also include the cost for those waste management services provided for or on behalf of City of Ekurhuleni, which cannot be allocated to a specific consumer. This may include area cleaning and *ad hoc* cleaning services.

2.4. Revenue sufficiency

The revenue from all waste management-related tariffs should cover the full cost of service delivery, including operational and maintenance costs, rehabilitation, replacement and extension of the infrastructure, provision for bad debt as well as

financing and depreciation charges for capital work not financed through any grant, subsidy or donation. Revenue sufficiency may be defined to include surcharges on the tariff for a service in appropriate circumstances, and contributions to capital development and other funds.

2.5. Sustainability

Waste Management tariffs should be set at levels that facilitate the financial sustainability of the service. Innovative debt management schemes should be implemented to promote payment. Waste management tariffs shall also encourage the economical, efficient and effective use of airspace, the reduction of waste to landfill, the recycling of waste and other appropriate environmental objectives. Adequate provision must also be made for funding the ongoing rehabilitation of waste infrastructure. Tax incentives, rebates and other income streams, such as waste to energy cost recoveries are components that can only be factored in once a full cost accounting model, which takes into account development, social and environmental factors, has been developed to inform future waste management financial decision-making.

2.6. Transparency

The extent of subsidization of tariffs for low-income persons or persons comprising low-income communities; who live in remote, isolated or low density communities who are seniors or other similarly vulnerable users and other categories of users should be fully disclosed. Correct cost allocation should be done in the spirit of transparency.

2.7. Alleviation of poverty

Subsidies (including those within and between user categories) should be disclosed to the extent that this is practical. Correct cost allocations and measurement of historical costs must take place to ensure that the policy of cost recovery is adhered to and that no inappropriate subsidization occurs.

3. DEFINITIONS

In this policy, unless the context otherwise indicates-

| | |
|--------------------------|---|
| Agricultural Land | All property zoned as agricultural on the Valuation Roll and includes small holdings and properties. |
| Business purposes | All developed properties not used for residence |
| Business waste | Waste that is generated from premises that are zoned for commercial, retail, wholesale, entertainment or government administration purposes and includes waste generated by informal traders and residence properties where commercial activities are being conducted |

| | |
|-----------------------------|---|
| "Collection" | Means the act of picking up solid waste materials from homes, businesses, governmental agencies, institutions, or industrial sites. |
| Container" | Means a disposable or reusable vessel in which waste is placed for the purposes of storing, accumulating, handling, transporting, treating or disposing of that waste and includes bins, bin-liners and skips; with a capacity varying between 85 l, 240l, 600l, 900l, 1100l and 1.75m3 provided by City of Ekurhuleni for the storage and disposal of waste in areas identified for containerization. This include colour coded for recycling. |
| Clean Garden Waste | Organic waste is generated from gardening or landscaping activities at residence properties, business or industrial properties, which includes but is limited to grass cutting, leaves and branches, and includes any biodegradable material and includes such waste emanating from residence properties and business properties, but excludes waste products of animal origin, soil and stones |
| Departmental charges | Refuse removal services rendered to all or other City of Ekurhuleni departments after service delivery needs has been evaluated by waste Management services. |
| Domestic Waste | Waste excluding hazardous waste that emanates from premises used solely for residence purposes. |
| "Event" | Means sporting, entertainment, recreational, religious, cultural, exhibitional, organisational or similar activities hosted at a venue or along a route or within respective precincts to which the public has access; means waste that originates from an event held within the Council's jurisdiction |
| Environmental levy | The tariff is levied to all properties not being levied a City of Ekurhuleni refuse removal tariffs including vacant land. |
| Formal Residences | A developed residence property promulgated in terms of town planning legislation. |
| General Waste | A generic term for waste that, because of its composition and characteristics, does not pose a significant risk to public health or the environment if managed properly, and typically |

| | |
|------------------------------|--|
| | consists of plastics, paper, food and liquids not considered to be infectious or contaminated with hazardous chemicals or radioactivity |
| Hazardous Waste | Waste that may, by circumstances of generation, production, use, quantity, concentration or inherent physical, chemical or toxicological characteristics, therefore, have a significant adverse effect on the environment, or the health of a person or other living organisms. The analysis must be from a laboratory |
| Indigent | Is a person that met specific national criteria to qualify to be an indigent and is registered in the City of Ekurhuleni indigent register. |
| Industrial Waste | Waste that is generated from premises that are zoned solely for industrial purposes and generate waste through manufacturing, industrial or fabricating processes, which includes premises zoned for agricultural land and/or the operation of power stations. |
| Informal Settlements | Occupation of land that is not formally promulgated into individual stands |
| Institutions | Community based welfare organisations and other NGOs as defined in the CoE property rates tariffs policy |
| Mixed use properties | <p>Tariffs on properties used for multiple purposes will be levied for-</p> <p>(a) Purpose corresponding with the zoning of the property as per valuation roll.</p> |
| Non-income generating | These services include mini refuse disposal sites/transfer stations; Litter picking in all areas excluding commercial and industrial areas; Rehabilitation of old disposal sites; Removal of illegal dumping and all services provided in the informal settlements. |
| “Owner” | Means the registered owner, lessee or occupier of premises, or the person in charge or control of any premises or part thereof or any person who obtains a benefit from the premises or who is entitled thereto; |
| “Private Bin” | means a supplementary receptacle not supplied by Ekurhuleni Metro used by |

| | |
|---------------------------------------|---|
| | residents/residences to temporarily store waste on the premises. |
| Rebates | Rebates are only applicable to resident with a stand size of 0-300m ² and the property value of R300 000 and less or those residences registered as indigent. Rebates do not apply to vacant land. |
| Recycling Containers Lids, | 240/ wheelie bin with approved colour coded |
| “Sub-letting” | means landlord that allow someone to rent all or part of a house or other building. |
| “Service point” | means a designated property in place where formal receptacle are not issued and a bin in place where receptacles were issued by the municipality where waste is collected on a routine collection basis. |
| “Routine door-to-door service” | means waste collected by means of routine collection operations. |
| Schedule Refuse Removal | Scheduled collection of refuse which frequency and quantity is subject to determination by the respective manager of area and/or collection from time to time. |
| Secondary structure | Residents occupying a structure at the backyard of another formal residence. |
| Sectional Title properties | All properties registered in terms of the section titles Act, 95 of 1986 |
| Services | The waste management services to be provided By City of Ekurhuleni and as defined in the Waste Management Act. |
| Special Waste | Includes solid, liquid, sludge waste or waste requiring special handling, e.g. all wastes of hazard rating 3 or 4 of specific food, animal carcasses, approved sanitary waste, rags and grit from sewerage works, incinerator ash, requiring prior approval and laboratory testing. |
| “Tariff” | Means the user charge for the provision of the Council services, determined and promulgated by the Council in a regulation made under Chapter 7 in terms of section 75 of the Local Government: Municipal Systems |

Vacant Land

All undeveloped land, properties without any buildings or structures, that could be used for residence or other purposes.

Zero rated waste**Waste disposed at landfill sites:**

1. General public up to 1 000 kg **limited to once a week**

(NB if same vehicle is carrying a load of more than 1000kg the complete load seizes or is no longer exempt and normal tariffs are applicable)

2. Clean building Rubble (**less** than 300mm in diameter)
3. Soil, usable as cover material
4. Waste generated and collected from residences qualified and registered as indigent

4. SERVICES

City of Ekurhuleni shall, for purposes of this policy, render the following services:

1. **Collection.**

The collection of building/demolition waste, garden waste/green waste, domestic waste, industrial waste/ business, carcass removal.

2. **Public Cleansing**

Removal of illegal dumping, littering picking, street sweeping, supply and servicing of relevant containers used for internal waste or events.

3. **Waste Disposal.**

The disposal of building/demolition waste, clean garden waste, domestic waste, hazardous waste, industrial waste, residence garage waste and recyclable material by City of Ekurhuleni.

4. **Waste treatment**

- Recycling,
- Reduction
- Municipal programmes and education

5. TARIFF DETERMINATION CONSIDERATIONS

- 5.1 The costs incurred by City of Ekurhuleni are unique and include the following
- Collection
 - Transportation
 - Storage
 - Disposal and waste minimisation
- 5.2 Provision for bad debts.
- 5.3 General administrative costs and overheads:
- Depreciation and interest on borrowings;
 - Capital and infrastructure replacement reserves;
 - Rehabilitation of landfill sites: and
 - Implementation of waste minimisation initiatives.

6. WASTE MANAGEMENT SERVICES COSTING MODEL - BIN SIZE AND FREQUENCY

(a) Costing model

The costing model for waste services was based on stand size with respect to the domestic service and derived from the amalgamation of the previous local Councils, wherein tariff structures varied greatly and ranged from a single tariff for all users to tariffs based on the number of rooms per dwelling, or on locality and geographic area. Uniform tariffs for the Ekurhuleni Metropolitan Municipality were promulgated as from 2001/2002 financial year. For the purpose of consistent application of the tariff throughout the city the bin size based on the 240 litre bin system was implemented throughout Ekurhuleni Metropolitan Municipality as a matter of priority to enhance billing versus services rendered, and the implementation of uniform service standards. For those areas that the defined bin sizes are not yet implemented, the current stand size based model, continues to be used to determine the tariffs, until such time the 240l bin system is implemented.

Waste collection based on container size are flat monthly payments unrelated to the quantity (volume or weight). A determination must be made per customer to establish appropriate quantity of services required, where subletting is identified appropriate number of 240l bin must be allocated and billed accordingly.

(b) Replacement of 240 litre bin as a result of loss or damage

- (i) Where a wheeled bin is reported as stolen, the residenceer must approach the nearest Depot to re-apply for a replacement. (*within 24hrs of theft*)
- (ii) Council will assess and make a decision to replace the wheeled bin free of charge provided a police case number and an affidavit is submitted from the resident in which they state the bin has been stolen.
- (iii) The loss of 240l bins caused by the user/clients will be replaced by Council and charged to the user/client at a cost of procuring a bin using Council existing procurement instrument plus 20% (of the cost of procuring a bin) to cover the administration costs. If there is proof that the bin is damaged by council employees during the collection, the replacement will be free.
- (iv) The report of the stolen bin will be recorded and should any further bins be reported as stolen, the Council reserves the right to charge the residenceer for replacement of the bin.

- (v) The Council reserves the right to make a charge for the replacement of damaged bins where it considers that the damage has occurred through misuse or failure to secure the bins appropriately.
- (vi) Council reserves the right to issue an additional bin in an event where excess waste larger than 240l capacity for the additional billing for the residents account.

(c) The loss/theft and damage to bulk containers

The loss/theft and damage to bulk containers: the cost of the replacement of a bulk container will be cost of procuring, a bin using Council existing procurement instrument plus 20% (of the cost of procuring a bin) to cover for administration costs will be levied to the owner of the business in the case of theft/loss, and in the case of damage of the container the full cost of repairing a bin using council procurement instruments plus 20% of the cost to repair a bin administration fee will be levied.

All Container services tariffs: are based on the size of the container and the frequency of removal as well as tonnages for waste disposal.

| Activity | Basis of Tariff calculation |
|--|--|
| Informal Settlements/indigents | Zero rated (once per week) |
| Formal Domestic Service | Per 240 l wheelie bin (served once per week) |
| Back yard dwellers in formal residences | Per 240 l bin per unit. Account holder is billed for all bins distributed to backyard dwellers. 15% rebate will be applied to all bins for backyard dwellers. |
| Flat/Town House Complex Refuse | Per unit at the rate of a 240l bin (X number of collections per week) <i>Council reserves the right to decide whether other types/sizes of bulk containers should be used</i> |
| Flat/Town House Complex Refuse where static compactors are installed | Per ton with minimum charge depending on whichever is the Highest, NB: Flat/Townhouse complex to apply to use the static compactor service and to be approved by HOD of the department prior to use. |
| Institutions (NGOs) | <ol style="list-style-type: none"> Orphanages, Children's homes and Old age homes where occupants do not have income and fully rely on grants/ donations will be exempted from payment. <ul style="list-style-type: none"> Annual financial statements should be submitted to the Department to assess the financial status of the institution. Proof of registration as welfare organization and audited financial statements. Retirement Facilities/Villages/Other charity organisations registered as non-profit organizations <ul style="list-style-type: none"> 15 % rebate for properties or units with the value of R300 000 and less and a property size of 0-300m² Other Retirement facilities with units valued at R300 000 and more, will be provided with the 240l bin service or |

| Activity | Basis of Tariff calculation |
|---|---|
| | <p>bulk container service (serviced once per week) and charged a domestic 240 litre bin tariff per unit.</p> <ul style="list-style-type: none"> Any other charity organisations will be provided with the 240l bin service or bulk container services (serviced once per week) and charged a domestic 240 liter bin tariff per unit. <p>Institutions (as per the definition) should submit the following documents for the Rebate application.</p> <ul style="list-style-type: none"> Financial statements Registration as an NPO or NGO by the South African Social Development Services Department Tenants register (from age 60 for female and males from 65 years) Proof of providing welfare services to the elderly <p>1. Letter of confirmation from a registered social worker or SACSSP.</p> |
| Business Refuse Removal | <p>5.1 Per container size and number of services per week for those businesses using Council Services</p> <p>5.2 Environmental levy for all businesses not using EMM refuse removal services</p> |
| Litter Picking | Rate per m² of all business and industrial zoned erven with fixed maximum levy per Month |
| Bulk container service | As per bin size , per removal or lift and per frequency of the service. |
| Sundry Tariffs | - Per removal -Per replacement for bins |
| Environmental levy | As per schedule of tariffs |
| Refuse Disposal Sites | Rand per ton as contained in the tariff schedule |
| General public and contractors from outside the boundaries of the metro | Rand per ton for general public and Contractors from outside the boundaries of City of Ekurhuleni |

7. CUSTOMER CATEGORIES

City of Ekurhuleni shall distinguish all waste collection services between: customer categories, namely:

7.1 Residence Properties:

- Indigents
- Vacant land,
- Formal domestic residences
- Informal settlements
- Flat/townhouse complexes
- Adhoc bulk container services
- Backyard dwellers

NB: Additional black 240l container service. Any residence zoned property may request one or more additional 240 l bin service and shall be billed for additional bin. The containers shall at all times remain the property of City of Ekurhuleni.

NB: Local government must provide waste management services, which include waste removal, storage and disposal services, as per Schedule 5B of the Constitution.

7.2 Institutions

Community based welfare organisations and other NGOs as defined in the CoE property rates tariffs policy

7.3 Environmental levy

- Vacant land residence
- Vacant land business
- All other properties not making use of CoE refuse removal services

7.4 Special events

Special Events for Collection Services will be rendered if requested by a registered customer and based on acceptance of a quote provided by City of Ekurhuleni.

7.5 Sundry services/sundry tariffs

- ❖ Carcass removal
- ❖ Veterinary surgeons
- ❖ Special refuse removal not containerized
- ❖ Replacement of bins

7.6 Business refuse removal:

- ❖ CoE departments
- ❖ Government departments
- ❖ EMM entities
- ❖ Other municipalities
- ❖ Parastatals
- ❖ Litter picking
- ❖ Veterinary surgeons –sundry tariffs
- ❖ Residence/domestic
- ❖ Formal residence
- ❖ Schools
- ❖ other

7.7 Solid waste disposal.

- All disposal tariffs has been standardized in all landfill sites .i.e. Simmer and Jack tariffs have been aligned with other landfill sites.
- The Head of Department: Waste Management Services reserves the right to re-direct waste to any council owned landfill site.
- Anything less than a kg shall be charged a price of a kg

CHOICE OF SERVICES

For all non-residence properties City of Ekurhuleni will **have the first right of refusal in writing** to render waste management services. Where the private service providers are used it is the responsibility of the user to ensure the service comply with the relevant by –law or provincial/national statutes or regulation. **The user shall be compelled to submit information types of refuse generated, volumes generated, origin of waste, service provider details and proof of**

safe disposal to City of Ekurhuleni Waste Management Services on request but **not less than quarterly**.

Minimum Charge to all properties not being levied a City of Ekurhuleni refuse removal tariff where scheduled services are available - including vacant stands.

PROCESS OF APPLYING OR TERMINATING A BUSINESS SERVICE,

- It is the responsibility of the client to contact the EMM waste management depot in the area of operation for processes to follow when applying or terminating a bulk container service

Billing

Billing categories will be in accordance with the tariff schedule and Waste Management by law as stated below:

Charges:

Liability to pay for the municipal service

1. The owner of premises is liable to pay to the Council the fee prescribed in schedule 5 of the tariffs schedule for the provision of the municipal service in time, and is not entitled to exemption from, or reduction of the amount of such fee by reason of not making use, or of making a partial or limited use, of the municipal service.
2. A prescribed fee becomes due and payable on the due date for payment stipulated in the account.
3. Non-receipt of an account does not relieve the person concerned of the liability to pay a prescribed fee before or on the due date.
4. Save where otherwise provided in the policy, the person to whom any service mentioned in the policy has been rendered by Council or made available by Council shall be liable to the Council for the tariff charge determined by the Council.
5. Tariff charges prescribed shall become due and payable on the same date as the general assessment rate levied: Provided that if such tariff charges are increased, any unpaid balance owing to the Council on the total amended charges will be due and payable to the Council on demand.
6. Any person who fails to pay the tariff charge in respect of services rendered or services made available by the Council be guilty of an offence.
7. Should any organization be able to produce a certificate of registration as a nonprofit organization issued by the

Department of Social Development, such an organization may apply for exemption from refuse removal levies; it either be:

- a. Levied the applicable domestic refuse removal charge as reflected in the tariff schedule;
 - b. The organization be exempted from paying all refuse removal charges in the case Of Orphanages, Children's homes and Old age homes where occupants do not have income and fully rely on grants/ donations will be exempted from payment)
8. In all service provisions, the property owner will be billed and not the tenant, however, in the case where a property management agency is involved and they have power of attorney, they may apply for services on behalf of the owner, although the settlement of the account remains the responsibility of the property owner.
9. All Departments and Entities **shall have their waste management needs assessed by the Waste Management Department** as and when required for provision and payment of the services. All council owned properties will attract departmental charges in line with their waste management service consumption capacity. The charges will be based on the existing tariffs schedule; this will be informed by the needs assessment conducted by the department

8. REBATES AND SUBSIDIES

Rebates for residence properties will be based on the following categories:

| Category | Percentage Rebate |
|---|--------------------------|
| <i>Registered Indigents</i> | 100% |
| <i>0-300m² (Properties or units with value of R300 000 and less)</i> | 15% |

8.1. Institutions

Orphanages and Old age homes where occupants do not have income and fully rely on grants/ donations will be exempted from payment.

- Annual financial statements should be submitted to Strategic Planning Division to assess the financial status of the institution.
- Proof of registration as welfare organization and audited financial statements.

8.2. Retirement Facilities/Villages/Other charity organisations registered as non-profit organizations

- 15 % rebate for properties or units with the value of R300 000 and less and a property size of 0-300m²

- Other Retirement facilities with units valued at R300 000 and more, will be provided with the 240l bin service or bulk container service (serviced once per week) and charged a domestic 240 litre bin tariff per unit.
- Any other charity organisations will be provided with the 240l bin service or bulk container services (serviced once per week) and charged a domestic 240 liter bin tariff per unit.

Institutions (as per the definition) should submit the following documents for the Rebate application.

- Financial statements
- Registration as an NPO or NGO by the South African Social Development Services Department
- Tenants register (from age 60 for female and males from 65 years)
- Proof of providing welfare services to the elderly
- Letter of confirmation from a registered social worker or SACSSP.

9. GARDEN REFUSE REMOVAL SERVICE

To be disposed at the transfer stations or landfill sites

10. SCHEDULED REFUSE COLLECTION SERVICE

Refuse collection is a scheduled service. However, if it is not collected on the scheduled fixed calendar day, it will be collected soon thereafter. At the latest it will be collected on the following scheduled day and any additional bags due to accumulation of additional waste will be accepted. No refunds or credits will be passed as a result of non-collection on the scheduled date. It is the responsibility of customer to report non collection of waste.

11. WASTE DISPOSAL

Disposal of waste at a disposal facility is based on a fixed rate per ton of waste disposed, which will be applied as follows:

- 11.1 Actual ton per weighbridge transactions; or
- 11.2 Carrying capacity per weighbridge transactions based on:
 - 11.2.1 Fixed body vehicle which will be charged at carrying capacity of the vehicle; or
 - 11.2.2 Promulgated tariff per ton. In case where weighbridges are not functional a fixed tariff will be based on the carrying capacity of the vehicle and estimates based on CoE formulas.
 - 11.2.3 General public shall be allowed free disposal of general waste generated from their residence homes of up to 1 000 kg limited to once a week (NB if same vehicle is carrying a load of more than 1000kg the complete load seizes or is no longer exempt and normal tariffs are applicable). **All businesses are not granted free disposal.**
 - 11.2.4 As part of business continuity at the landfill sites landfill contractors shall provide access control Human Resources when requested by the Landfill sites Management on provisional sums.

12. APPLICATION FOR THE SUPPLY OF SERVICES: WASTE MANAGEMENT SERVICES

In the following instances the completion of an application form by the registered property owner for the supply of services is required –

- 12.1 For new or change in level of service required by non-residence properties;
- 12.2 For the change in the level of service required by residence properties;
- 12.3 In the case of change in ownership of the property, the old service level will be changed to suit the new business owner.

13. ADJUSTMENT TO ACCOUNTS

13.1 An official as delegated by Head of Department Environmental Resources and Waste Management shall adjust accounts on documented proof of an amended service level agreement (letter, email, etc.) and the applicable date of change.

13.2 If current service level verified by City of Ekurhuleni is different to the financial billing, then the billing will be corrected from date of ***first report by client***.

13.3 No refunds or credits will be passed as a result of non-collection on the scheduled date. It is the responsibility of customer to report non collection of waste to the department.

13.4 During data clean-up exercises City of Ekurhuleni may adjust the account, backdated for the current year plus two preceding financial years, if City of Ekurhuleni has provided a service, and the financial billing is different to the current service level.

14. SPECIAL EVENTS FOR COLLECTION SERVICES

- 14.1 Special Events for Collection Services will be rendered if requested by a registered customer and based on acceptance of a quote provided by City of Ekurhuleni.
- 14.2 The Special Events Collection Services will be rendered, on request and Subject to the availability of resources and not exceeding a period of 21 calendar days.
- 14.3 Delivery and retrieval of containers from the bin store may occur during the City of Ekurhuleni's office hours. The prescribed application documents must be fully completed and approved at the Waste Operations Depot 15 working days prior to the date of the service being required. If Containers are lost, stolen or damaged, replacement and/or repairs are to be borne by the applicant
- 14.4 To promote recycling, a two-way recycling system will be implemented by hiring two bins, for recyclable and non- recyclable waste streams.
- 14.5 The cost charged will be per lift per bin as per tariff schedule.

15. SERVICE AT MINI WASTE SITE

- The Service at the drop-off facilities is free provided Users adhere to conditions for including that waste must be transported by **car, trailer or LDV** with total carrying capacity not exceeding 1.3 tons.

16. FUNDING OF NON-INCOME GENERATING SERVICES

-All non-income generating services under waste management services shall be funded by equitable share/property rates. The services covered include street sweeping, litter-picking, clearing of illegal dumping, mini sites and transfer stations part of landfill maintenance, zero rated services.

17. GENERAL

-City of Ekurhuleni may supply bags and other consumables for utilization in clean-up campaigns at no cost subject to the availability of funds and at the discretion of the Head of Department: Environmental Resource and Waste Management Services.

18. APPEAL

-Should the owner, body corporate or property management agent not be satisfied with the outcome of an adjustment in the tariffs, he/she may appeal (in writing) to the City Manager within 21 days in terms of Section 62 of the Municipal Systems Act.

19. TERMINATIONS

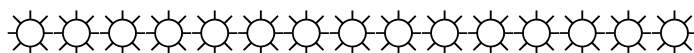
-Termination of service is to be done strictly by standard discontinuation form to be supplied by City of Ekurhuleni.

20. DEPARTURES

-Departures from the above principles and policy may only be made through Council approval.

21. REGULAR REVIEW PROCESSES

-The policy will be reviewed on an annual basis to ensure that it complies with City of Ekurhuleni's strategic objectives and with legislation.



IDP and BUDGET

2018/19 - 2020/21



Annexure D6

CONSUMER DEPOSIT POLICY

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CONSUMER DEPOSIT POLICY OF THE CITY OF EKURHULENI

PREAMBLE

WHEREAS it is expedient for municipalities to take reasonable steps to ensure that their consumers honour their financial obligations;

AND WHEREAS the requiring of deposits from consumers is a reasonable and recognised method to ensure that municipalities are paid for services rendered by them;

NOW THEREFORE the Council of the City of Ekurhuleni has adopted the Consumer Deposit Policy as set out hereunder –

DEFINITIONS

For the purpose of this policy any word or expression to which a meaning has been assigned by the Act, shall bear that meaning in this policy, unless the context indicates otherwise.

“Act” means the Local Government Municipal Systems Act, 2000 (Act 32 of 2000), as amended from time to time.

“Cash” means acceptable form of payment, bank guaranteed cheque or electronic funds transfer.

“Chief Financial Officer” means the person appointed by the municipality as Chief Financial Officer of the City of Ekurhuleni in terms of section 56 of the Local Government : Municipal Systems Act, 2000 (Act 32 of 2000).

“Consumer” means any occupier of any premises to which the municipality has agreed to supply or is actually supplying municipal services, or if there is no occupier, the owner of the premises and or recipient and or consumer of various services rendered by the municipality. A customer will therefore be deemed a customer by virtue of receiving, consuming and or utilising any facility, equipment, service rendered by the municipality and or a municipal entity or an agent as appointed by the municipality.

“Council” means:

- (a) the “Municipality” and vice versa;
- (b) the Council of the City of Ekurhuleni established by Provincial Notice No 6768, as amended, exercising its legislative and executive authority through the municipality;
- (c) its successor in title;
- (d) a structure or person exercising a delegated power or carrying out an instruction, where any power in these by-laws has been delegated or sub-delegated, or an instruction given, as contemplated in section 59 of the Act; or

- (e) a service provider fulfilling a responsibility under these by-laws, assigned to it in terms of section 81(2) of the act, or any other by-law, as the case may be.

“Customer” means “Consumer”.

“City Manager” means the person appointed by the Council as the City Manager of the City of Ekurhuleni in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998), and includes any person -

- (a) acting in such position; and
- (b) to whom the City Manager has delegated a power, function or duty.

“Municipality” means the “council” and vice versa.

“Policy” means the Deposit Policy adopted by Council.

“Services Agreement” means an agreement entered into between Council and Customer in terms of “Customer Agreement Policy” for the supply of metered services.

1. OBJECTIVE OF POLICY

The objective of this policy is to provide a policy framework for the circumstance under which deposits must be paid, the determination of the amount of deposits that must be paid and the refund or forfeiture of deposits.

2. CIRCUMSTANCES UNDER WHICH DEPOSITS MUST BE PAID

- 2.1 In terms of paragraph 3 of the Consumer Agreement Policy, every application for municipal service has to be accompanied by a deposit, the amount of which is determined by Council, from time to time.
- 2.2 Consumer deposit is payable in respect of the following metered services:
 - 2.2.1 Electricity services.
 - 2.2.2 Water services.
 - 2.2.3 Any other services determined by Council from time to time.
- 2.3 Approved and Deemed indigents – No deposit will be required in respect of indigents approved in terms of Council's Indigent Support Policy.

3. DETERMINATION OF THE AMOUNT OF A DEPOSIT

- 3.1 The amount of a deposit in respect of **new service agreements** will be determined based on the type of service, size of supply and customer category.
- 3.2 In addition to 3.1, deposit amounts may be differentiated based on proclaimed township as determined by Council from time to time.

- 3.3 Deposit amount to be determined and approved by Council from time to time.
- 3.4 Date of service agreement application will determine applicable deposit amount payable.
- 3.5 Approved categories of customers may in lieu of a part or full deposit requirement submit a bank guarantee as determined by the Council from time to time.
- 3.6 If a bank guarantee, is offered instead of payment in cash, the following will apply:
- 3.6.1 A bank guarantee of 100% of the amount due in respect of the deposit may be tendered in respect of customers linked to the following electricity tariff categories –
- **Tariff B Residential Resellers:** Above 3 x 150 Ampere connections
 - **Tariff C :** Bulk supplies at any voltage and with a capacity of at least 25 kVA (minimum monthly NAC of 25 kVA
 - **Tariff D :** Bulk supplies at any voltage and with a capacity of at least 1 MVA and a network access charge of at least 1 MVA over the previous 12 months
 - **Tariff E :** Bulk supplies at any voltage and with a capacity of > 25kVA and a NAC of < 1 MVA.
- 3.6.2 A bank guarantee of 100% of the amount due in respect of the deposit may be tendered in respect of customers linked to the following water connection type categories –
- 80 mm
 - 100 mm
 - 150 mm
- 3.6.3 The bank guarantee tendered to be irrevocable until all dues in terms of the property has been settled.

4. ADJUSTMENT OF DEPOSIT HELD

- 4.1 When the size of the supply on which the deposit is based is either enlarged or reduced, the deposit amount in respect of existing service agreements may be amended to current prescribed deposit amount.
- 4.2 The amount required as deposit in respect of existing service agreements may from time to time be reviewed and **where no deposit is held** the deposit may be determined as follows :
- 4.2.1 With exclusion of “Residential” customer categories, adjust to current approved deposit amount.
- 4.2.2 Residential customer categories –
Calculated average monthly consumption in respect of previous three (3) months or current approved deposit amount, whichever is the smallest.
Based on oldest account debt ageing at date of assessment, calculated deposit amount in terms of above-mentioned to be raised as follows:
- 4.2.2.1 Current debt – Adjust to 20% of calculated deposit.
 - 4.2.2.2 30 days and less – Adjust to 50% of calculated deposit.
 - 4.2.2.3 60 Days and less – Adjust to 70% of calculated deposit.
 - 4.2.2.4 60+ Days – Adjust to 100% of calculated deposit.

- 4.3 The amount required as deposit in respect of existing service agreements may from time to time be reviewed and where a **deposit is held**, the amount of the deposit may be increased to prescribed deposit or two times the current deposit held, whichever is the smallest.
- 4.4 When an account is in **arrears for more than 60 days**, the deposit held in respect of existing service agreements may be adjusted to such higher amounts as determined by Council from time to time but not exceeding two times the monthly average consumption in respect of previous three months.
- 4.5 In the event of **interference** with the functioning of a metering installation, or as a result of unauthorised connections or as a result of unauthorised reconnections the deposit amount may be raised to two times average monthly consumption in respect of previous three months or double prescribed deposit amount, whichever is the greatest.
- 4.6 Existing municipal customers may be required by the City Manager to enter into new service agreements and to pay the increased deposit determined by the Council.
- 4.7 Customers in respect of 4.1, 4.2 and 4.3, may apply in writing for reduced deposit amount if monthly average consumption in respect of previous three (3) months is less than 75% (seventy five) of prescribed deposit amount.

5. FAILURE TO EFFECT PAYMENT OF DEPOSIT

If a consumer of services fails or refuses to comply with a request to make a deposit, any municipal service to such customer may be terminated until the Chief Financial Officer certifies that the services agreement has been entered into and the deposit is paid in full.

Deposit raised when entering into services agreement is to be paid in full prior to services being rendered.

Debt repayment arrangement in terms of approved Credit Control, Policy may be entered into in respect of –

- Paragraph 4.1 – Change due to size of supply
- Paragraph 4.2 - No deposit held
- Paragraph 4.3 – Deposit adjustment

6. REFUND OR FORFEITURE OF DEPOSIT

- 6.1 Deposit made by a customer is refundable, free of interest, on termination of the supply of services, provided that all outstanding amounts have been settled in terms of the property.
- 6.2 Customer may be required to submit receipt of deposit payment in order to satisfy the Council that customer is entitled to refund.
- 6.3 Deposit shall be forfeited to the Council if not claimed in writing by the customer within 12 months of the termination of all services.
- 6.4 The customer must notify the office of the Chief Financial Officer of any change of address in order to facilitate the refund of the deposit.

7. APPROPRIATION OF DEPOSIT

If a customer is in default with any payment to the municipality in respect of any service, the amount of the deposit may be allocated as payment against any outstanding municipal account of that person. Customer to be informed in writing if deposit is appropriated and will further result in adjusted deposit being raised in terms of policy.

Deposit held in respect of approved and deemed Indigents in terms of Indigent Support policy will be appropriated to account on date of indigent approval.

8. SHORT TITLE

This policy shall be called the Consumer Deposit Policy of the City of Ekurhuleni.



IDP and BUDGET

2018/19 - 2020/21



Annexure D7

INDIGENT SUPPORT POLICY

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INDIGENT SUPPORT POLICY

1. INTRODUCTION

The Indigent Support Policy is a legal imperative, a tool designed to ensure that persons and households classified as indigent have access to basic services as defined in the Constitution of the Republic of South Africa, Act No 108 of 1996. The policy is a result of continuous prevalence of indigence and poverty within communities. This policy therefore is a tool of intervention to alleviate the plight and to encourage indigent households to live within affordable consumption levels. The Indigent Support Policy is aimed at ensuring that the State fulfil its constitutional obligation contained in the Bill of Rights. This policy must be read in conjunction with the Credit Control Policy and applicable legislative frameworks.

2. PREAMBLE

WHEREAS Section 74 of the Local Government: Municipal Systems Act 2000 (Act No 32 of 2000), requires that the Council should, in formulating a Tariff Policy for the municipality, at least take into consideration the extent of subsidisation of tariffs for poor households.

WHEREAS Council needs to have an approved Indigent Support Policy.

WHEREAS such policy must provide procedures and guidelines for the subsidisation of basic services and tariff charges to its indigent households.

WHEREAS the Council has committed itself to render a basic level of services necessary to ensure an acceptable and reasonable quality of life which takes into account health and environmental considerations.

NOW THEREFORE the Council of the City of Ekurhuleni has adopted the **Indigent Support Policy** set out hereunder: -

3. PURPOSE

- ▶ To ensure and maintain access to basic services and/or benefits for all identified and deserving poor households including emergency services rendered by the City of Ekurhuleni.
- ▶ To improve monitoring systems, provide support and to strengthen capacity of the City of Ekurhuleni to implement the policy.
- ▶ To ensure that subsidisation for indigent support is funded and allocated as per policy directives to the qualifying households.
- ▶ To effectively manage co-ordination between internal departments with regard to the policy implementation.
- ▶ To ensure the implementation of an exit strategy to support the increased mobility of the poor from the indigent register
- ▶ To ensure that the City of Ekurhuleni remains financially sustainable while meeting the needs of the indigents.
- ▶ To ascertain appropriate targeting options for the defined indigent households so as to ensure inclusiveness in the approach and application of the policy in an equitable manner.

4. OBJECTIVE OF POLICY

The objective of the Indigent Support Policy is to ensure:-

- (a) the provision of basic services to indigent households in communities falling under the jurisdiction of the City of Ekurhuleni in a sustainable manner, within the financial and administrative capacity of the City of Ekurhuleni.
- (b) the establishment of procedures and guidelines for the effective of subsidisation of basic service charges to such approved indigent households, within budgetary and Intergovernmental grant guidelines.

5. PRINCIPLES OF THE POLICY

Section 74 (2) (c) of the Municipal Systems Act, Act 32 of 2000 stipulates inter alia the following:-

“poor households must have access to at least basic services through:

- (i) tariffs that cover only operating and maintenance costs;*
- (ii) special tariffs or life line tariffs for low levels of use or consumption of services for basic levels of service; or*
- (iii) any other direct or indirect method of subsidisation of tariffs for poor households;”*

The following are the guiding principles for the formulation of an Indigent Support Policy:

- (a) the Indigent Support Policy must be formulated in accordance with the Constitution of the Republic of South Africa, 1996, (Act No 108 of 1996 and other applicable legislation, amongst others, the Promotion of Administrative Justice Act, 2000 (Act No. 3 of 2000) which provides that everybody has a right to administrative justice that is lawful, reasonable and procedurally fair.
- (b) relief must be provided by the City of Ekurhuleni to registered residential consumers of services who are indigent.
- (c) Council must, wherever possible, ensure that any relief is in accordance with the Constitution and is cost effective, sustainable, practical, fair, equitable and justifiable.
- (d) the subsidising of minimum service levels should not result in the creation of a massive bureaucratic administration that would not be cost effective to implement.
- (e) differentiation must be made between those households who cannot afford to pay for basic services and those who do not want to pay for these services.
- (f) other municipal services in addition to free basic services should, where possible, be affordable and beneficial to the indigents.
- (g) the relief should be valid for a maximum period of 36 months.
- (h) the Council may review and amend the qualification criteria for indigent support.
- (i) the joint gross income of all the household occupants will be taken into account in determining the validity of indigent support application.
- (k) the indigent data-base shall be updated regularly.

- (l) misuse of any support or grant or supply of invalid information will lead to punitive action by City of Ekurhuleni against indigent support beneficiaries.
- (m) the City of Ekurhuleni reserve the right to verify new applications and existing approved indigents against any relevant external data source.
- (n) the Council must/may use external services and/or references to verify the information provided by the applicants.

6. DEFINITIONS

For the purpose of this policy, any word or expression to which a meaning has been assigned in the Act, shall bear the same meaning in this policy, and unless the context indicates otherwise:–

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|----------------------------------|---|--|
| “Authorised Officer” | : | means any official of the Council who has been authorised by the Council to administer, implement and enforce the provisions of this policy. |
| “By-law” | : | means a by-law adopted by the Council. |
| “Basic Services” | : | means the supply of the following basic services within the budgetary and legislative guidelines: <ul style="list-style-type: none"> ▶ Energy supply ▶ Water supply ▶ Sanitation services ▶ Refuse removal service |
| “Calendar days” | : | means all days in the month inclusive of Saturdays and Sundays. |
| “Child Headed Households” | : | Is deemed to be a household that is headed by a minor dependant or child under the age of 18 years who has assumed the role of care-giver in respect of the children in the household and is also responsible for management of such households, due to the parent/s guardian or care-giver of the household who was the registered owner/ account holder/ legal tenant of the property who is terminally ill, deceased or abandoned the children in that household. |
| “City Manager” | : | means the person appointed by the Council as the City Manager of the City of Ekurhuleni in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998), and includes any person: <ul style="list-style-type: none"> (a) acting in such position, and (b) to whom the City Manager has delegated a power, function or duty. |
| “Council” | : | Means - <ul style="list-style-type: none"> (a) the “Municipality” and vice versa; |

- (b) the Council of the City of Ekurhuleni established by Provincial Notice No. 6768, as amended, exercising its legislative and executive authority through the municipality;
- (c) its successor in title;
- (d) a structure or person exercising a delegated power or carrying out an instruction, where any power in these by-laws has been delegated or sub-delegated, or an instruction given, as contemplated in section 59 of the Local Government Municipal Systems Act, 2000 (Act No 32 of 2000); or
- (e) a service provider fulfilling a responsibility under these by-laws, assigned to it in terms of section 81(2) of the Act, or any other by-law, as the case may be.

| | | |
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| “Deemed Indigent Household” | : | means individuals who live together in a single residential property and qualifies for indigent relief based on the use and value of property as determined in terms of general valuation roll. |
| “Dependant” | : | means a person under the age of 18 years who is financially dependent and resides permanently with the owner and/or tenant of property in a single residential property within the area of jurisdiction of City of Ekurhuleni. |
| “Essential household services package” | : | means provision of water supply, sanitation, refuse removal, supply of basic energy. |
| “Household Income” | : | means any form of remuneration and/ or income as defined in the Sixth Schedule to the Income Tax Act, 58 of 1962 but excluding State Children Support grants. |
| "illegal connection" | : | a connection to any system through which municipal services are provided, which is not authorised or approved by the Municipality or its authorised agent. |
| “Indigent Household” | : | means individuals who live together in a single residential property and collectively qualifies for indigent relief in terms of this policy. |
| “Indigent Person” | : | means a person lacking the basic necessities of life such as insufficient water, basic sanitation, refuse removal, health care, housing, environmental health, and supply of basic energy, food and clothing as defined in this policy. |
| “Municipality” | : | means the “Council” as defined above. |

| | | |
|---------------------------------|---|---|
| “Occupants” | : | means the owner and/or legal tenant of property and all individuals who live together in a single residential property. |
| “Pensioner” | : | means a person whom - <ul style="list-style-type: none"> (i) is at least than 60 years of age on date of application, provided that where couples are married in community of property and the property is registered in both their names , the age of the eldest will be the qualifying factor; (ii) is the registered owner of the property or registered as “Life right use” tenant in deeds office; (iii) is the owner/occupant and account holder of the property concerned, which will consist of one dwelling only and no part thereof will be sub-leased; (iv) must reside permanently on the property concerned which consists of one dwelling only; and (v) a person who is a mentally and/or physically disabled person complying with the requirements in (i) to (iv) above. |
| “Registration method” | : | means registration process applied by Council in the indigent application process. |
| “Resident” | : | means a person residing within the area of jurisdiction of City of Ekurhuleni and consume services as provided by the Council. |
| “Services” | : | means the “basic services” as defined above. |
| “Social service package” | : | means higher levels of household services and access to public services such as roads, public transport, community services and emergency services as provided by Council. |
| “Working Days” | : | means Monday to Friday excluding public holidays. |
| “Youth Headed household” | : | Is deemed to be a household that is headed by a youth above the age of 18 years to 35 years, who has assumed the role of care-giver in respect of the children in the household and is responsible for management of such households, due to the parent/s guardian or care-giver of the household who was the registered owner/ account holder/ legal tenant of the property who is terminally ill, deceased or abandoned the children in that household. |

7. LEGISLATIVE FRAMEWORK AND GUIDELINES

- Constitution of the Republic of South Africa, Act No 108 of 1996.
- Local Government Municipal Systems Act, Act No 32 of 2000.

Guidelines

- (a) Framework for Municipal Indigent Policies: Towards a basket of services for the poor dated May 2007.
- (b) Free Basic Strategy and guidelines prepared by the Department of Water Affairs and Forestry.
- (c) Electricity Basic Support Tariff (free basic electricity) Policy prepared by the Department of Minerals and Energy.

8. SCOPE OF POLICY APPLICATION

The Indigent Support Policy shall be applicable within the area of jurisdiction of the City of Ekurhuleni.

The Indigent Support Programme must be accessible to all qualifying indigent persons.

9. CRITERIA FOR QUALIFICATION FOR INDIGENT SUPPORT

9.1 REGISTERED HOUSEHOLD

9.1.1 INDIGENT HOUSEHOLD

Indigent relief will be granted to an approved household where the -

- (a) combined household income of all occupants / residents and/or dependents residing on the property and are over the age of 18 years of age, is less than two (2) monthly minimum wage determination based on Area "A" Domestic worker who work more than 27 ordinary hour per week, as amended by Minister of Labour from time to time;
- (b) account in respect of Basic Services and/or Assessment rates is held with Council in the name of the applicant;
- (c) applicant is a South African citizen or in possession of permanent residence certificate;
- (d) the property is used for residential purposes only; and
- (e) municipal value of property does not exceed maximum value as determined by Council's assessment rates tariff policy.
- (f) Council Housing Rental Stock – Rental and / or services account is held by approved occupant

9.1.2 CHILD-HEADED HOUSEHOLD

Child-headed households will be treated as special cases subject to the following conditions:

- (a) the normal qualifying criteria for indigent support in respect of remaining members of household is complied with;
- (b) the account of the deceased parents is closed;
- (c) the oldest child signs the user agreement assisted by appointed legal guardian in possession of "Letter of authority" issued by local magistrate court. Letter of authority will only be accepted during period of winding up of estate, not to exceed period of 24 months from date of issue unless proof of address can be submitted.
- (d) property is not occupied by any member other than minor dependent children of deceased owner and or tenant;
- (e) the status of the household is reviewed in terms of this policy at least on 36 monthly bases.

9.1.3 EXCLUSIONS – REGISTERED HOUSEHOLDS

Indigent relief will NOT be granted where the applicant, household, occupants/ residents and/or dependants residing on the property, as the case may be, -

- (a) receive significant benefits or regular monetary income that is above the indigent qualification threshold;
- (b) where the applicant is not the registered consumer of services in the records of Council;
- (c) where the applicant own/s more than one (1) property, registered individually or jointly within area of jurisdiction of Council;
- (d) where the applicant rent/s or subleases his property or part thereof to any third party during the duration of the grant period; or
- (e) applicant tampers or illegally connects or reconnects services prior to this application, until such time as the total costs, penalties, other fees, illegal consumption and any applicable tariffs and rates due to the Council have been paid in full.

9.2 DEEMED INDIGENT HOUSEHOLD

Households within the following categories of properties will be deemed to be indigent households, if - :

- (a) the property is used for residential purposes only as reflected in General Valuation roll;
- (b) residential exclusion as per Property Rates Act 2004 (Act No 6 of 2004) is applicable to property;
- (c) municipal value of property does not exceed maximum value R150 000.

Households within City of Ekurhuleni listed Un-proclaimed Townships will be deemed to be indigent households, if:

- (a) Property identified as Un-proclaimed Township not registered in Deeds Office.

- (b) Proclaimed property is registered in name of City of Ekurhuleni and included in general valuation roll.
- (c) Provisional value of individual developed residential property, as determined by City of Ekurhuleni municipal valuer, will not exceed maximum value of R 150 000 on date of valuation.
- (d) Account in respect of Basic Services is held with Council in the name of the household;

9.2.1 EXCLUSIONS – DEEMED INDIGENT HOUSEHOLDS

Indigent relief will be withdrawn where upon verification the deemed indigent household, including occupants/residents and/or dependants residing on the property, as the case may be, -

- (a) receive significant benefits or regular monetary income that is above the indigent qualification threshold;
- (b) owner of property owns more than one (1) property, registered individually or jointly.
- (c) owner of property rent or sublease his property or part thereof to any third party.
- (d) deemed indigent household tampers or illegally connects or reconnects services.
- (e) business activities are being conducted on property.
- (f) properties registered in name of National, Provincial or Local Government
- (g) owner of property applies to be excluded from deemed indigent relief.

9.3 INDIGENT

Indigent relief in respect of other services provided by Council, *excluding household free basic services and assessment rates grants*, will be granted to approved **indigent person** where:-

- (a) applicant is a South African citizen or in possession of permanent residence certificate;
- (b) applicant is over the age of 18 years of age but includes financially dependent minors of applicant;
- (c) household income is less than two (2) monthly minimum wage determination based on Area "A" Domestic worker who work more than 27 ordinary hour per week, as amended by Minister of Labour from time to time;

10. EXTENT OF INDIGENT SUPPORT

10.1 REGISTERED INDIGENT HOUSEHOLD / PERSON

- (a) Indigent support will be given on a monthly basis, and the extent of the monthly support will be determined by the national policy guidelines and the Council's budgetary provisions in respect of:

- (i) free basic water;
 - (ii) free refuse collection;
 - (iii) free basic electricity or energy (depending on which service level is applicable);
 - (iv) free basic sanitation; and
 - (v) assessment rates in respect of residential property registered in name of qualifying indigent owner subject to the maximum amount as determined by Council from time to time.
- (b) the level of indigent support granted shall not exceed the actual monthly billing to the account in respect of the services referred to in the preceding paragraph.
 - (c) the relief will be subject to national policy guidelines and the Council's budgetary provisions.
 - (d) the recipient's monthly account will be credited with the amount of indigent relief granted in terms of this policy.
 - (e) a household may apply for the continuation of relief on expiry of relief period as specified in Section 11 below - subject to compliance with policy qualification criteria.
 - (f) the Council may determine special tariffs and/ or grant rebates in respect of the following social services subject to the availability of funds and compliance with qualifying criteria in terms of this policy:
 - (i.) Sports grounds, pools;
 - (ii.) Fire Protection
 - (iii.) Transport
 - (iv.) Market;
 - (v.) Museums;
 - (vi.) Mayor's Relief Fund;
 - (vii.) Hiring of halls;
 - (viii.) Cemeteries and crematoria;
 - (ix.) Damage to property as a result of natural disaster;
 - (x.) Any other services as determined by Council; and
 - (xi.) Emergency and ambulance services.
 - (xii.) Grass and tree cutting within property in respect of registered disabled and pensioner indigent.
 - (xiii.) Rodent and pest control within property in respect of registered disabled and
 - (xiv.) Indigent Burial

10.2 DEEMED INDIGENT HOUSEHOLD

- (a) Indigent support will be given on a monthly basis, and the extent of the monthly support will be determined by the national policy guidelines and the Council's budgetary provisions in respect of:
 - (i) free basic water;
 - (ii) free refuse collection;
 - (iii) free basic electricity or energy (depending on which service level is applicable);
 - (iv) free basic sanitation; and
 - (v) assessment rates.

- (b) the level of indigent support granted shall not exceed the actual monthly billing to the account in respect of the services referred to in the preceding paragraph.
- (c) the relief will be subject to national policy guidelines and the Council's budgetary provisions.
- (d) the recipient's monthly account will be credited with the amount of indigent relief granted in terms of this policy.
- (e) in terms of resolution 4 of the Item A-F (24-2006) (Writing off of Outstanding debts in respect of Indigent Accounts) dated 29 June 2006, the accumulated debt in respect of **deemed indigents** be written off administratively on monthly basis as from date of qualification in terms of this policy.

11. PERIOD OF RELIEF

Application based Indigent relief is granted for a reviewable period of 36 months which is determined by Council from time to time.

Deemed indigent household relief is granted based on value of property.

12. ADMINISTRATION OF INDIGENT SUPPORT

The applying citizen must present his/her Identity Document at the point of application for which the following steps will occur:-

- (a) if registered owner or tenant of property, property details to be supplied with copy of monthly account statement and / or prepaid meter token along with SAPS certificate affidavit of names and identity number of individual residing on property.
- (b) after the application form has been completed, an effective and efficient evaluation system must be used in order to verify the information furnished by the applicant and to reach a decision within 21 days after the date on which the application was lodged.
- (c) if a household is found to be indigent, his/her personal particulars must be registered on a database linked to the debtors system with immediate effect.
- (d) the onus is on the recipient of relief in terms of this policy to inform the Council of any change in his/her status or personal household circumstances.
- (e) the declaration of residence in a household will be captured as an appended record to the relevant Identity Document number, and that will be the only property for which the individual bearing that Identity Document number can claim subsidy. In the case of there being any dispute as to the residence of a given individual, that individual's declaration IN PERSON at his or her indigent/finance office will take precedence over any declaration made by another individual that the person in question resides in their household.
- (f) all indigents should be re-evaluated after 36 months from the date on which relief was authorized in order to assess the need for the continuation of relief in terms of this policy. The Health and Social Development Department must complete the re-verification prior to the expiry of the 36 months approved status period. In the event where the socio-economic status of the household is improved beyond the indigent threshold the applicant has a responsibility to apply for cancellation of the indigent status as prescribed.

- (g) Relief will be stopped with immediate effect if it is found that an approved indigent has supplied information known to have been untrue in order to obtain relief. It will further be stopped if it is discovered that an approved indigent failed to inform City of Ekurhuleni of changes in his/her/their financial circumstances which would disqualify them from receiving assistance in terms of this policy. Providing misleading information constitutes fraud and City of Ekurhuleni may claim any financial benefits that have been granted, from the indigent. In addition to having to repay the financial benefits, the indigent who has received the benefits will be guilty of committing an act of fraud which is a criminal offence and criminal charges may be brought against such person/s.

13. CONTROL MEASURES FOR THE DISTRIBUTION OF INDIGENT SUPPORT

- (a) any resident of the municipality who is aware of malpractice may lodge an objection for review by the Indigent Appeals Committee for granting such relief to such a person.
- (b) the details of all applicants and their respective households must be submitted to the Council on a quarterly basis.
- (c) Any person and or household registered as indigent may not sell and or change ownership of the property within period of 36 months from the date of approval of the indigent relief.

14. CORRECTIVE STEPS

If the extent of the indigent support as per Section 10 above is exceeded the following may be implemented:

- (a) Installation of a **Pre-paid Electrical Meter**.
- (b) Installation of a **Water Demand Meter**.

15. ACTION AGAINST MALPRACTICES TO MISREPRESENTATION OR MISUSE

Customers found to have misrepresented themselves in order to benefit from any of the Councils relief and / or benefit in terms of this policy, will be deemed to have committed an offence and remedial measures will be taken in a manner as determined by the Council from time to time, and all relief and / or benefits that have been received will be reversed to account of customer from date of offence.

- (a) the Council may refer any misrepresentation to the committee, who must take such action as ordered by the Council, or any of the following steps deemed appropriate by the committee:
 - (i) request the resident to provide full proof of his/her banking account, receipt of income details as well as pension registration where applicable.
 - (ii) the details of the objector shall remain anonymous.
 - (iii) request a social worker's report on the household, and
 - (iv) institute criminal proceedings against the recipient.

- (b) if it is established that incorrect information was furnished in obtaining relief any of the following actions may be taken:-
 - (i) suspend or stop the relief immediately.
 - (ii) recover from the recipient the amount of relief furnished by debiting his/her account.
 - (iii) apply the credit control and debt collection procedures of the municipality.
 - (iv) institute criminal proceedings against the recipient.
- (c) In the event that property is sold within period as prescribed in section 13(c) above, all accumulated debt written off on date of application will be reversed to current account. Rebates granted during approved indigent period until date of transfer will remain.

Customers found to have tampered, or illegally connects or reconnects services, will be deemed to have committed an offence and remedial measures will be taken in a manner as determined by the Council from time to time, and all relief and/or benefits that have been received will be reversed to account of customer from date of offence and relief suspended or stopped immediately.

16. EXITING THE PROGRAMME

Upon the expiry of the 36 months period as contained in above the debtor may apply to be de-registered. The application for de-registration will be administrated by the Health and Social Development Department who will advise Finance accordingly where after the affected departments will be requested to restore the full services at the property.

All approved applicants will be captured in the indigent data base, from which all skills development and job creation programmes developed by the City of Ekurhuleni will draw their intake from. Any department developing a measure or programme designed to target the poor will use this database as the source of their programme participants. This is designed to systematically assure that households qualifying for indigence are subject to the full range of interventions delivered through (or in collaboration with) the City of Ekurhuleni, in accordance with the Growth and Development Strategy Pillars, one of which is poverty alleviation.

17. RIGHT TO APPEAL

- (a) An applicant who is the registered household owner living within the municipal jurisdiction and therefore feels aggrieved by a decision taken in respect of his/her application may lodge an appeal in terms of section 62 of the Municipal Systems, Act 32 of 2000.
- (b) The City Manager shall appoint an Indigent Appeal Committee that will consider all appeals.
- (c) The City Manager will appoint the chairperson of the Indigent Appeal Committee to be a person vested in Law outside of the City's employ.
- (d) The Indigent Appeal Committee will have to review, preside and or hear all lodged appeals within 30 working days, unless substantive facts have been provided contrary to this stipulation.

- (e) The Appeal's committee shall consist of the following departments Health and Social Development, Finance and Corporate and Legal Services.
- (f) All Appeals shall be lodged in a form prescribed by the Health and Social Development department and state the nature and reasons for appeal.
- (g) Until reviewed by Indigent Appeals Committee, indigent application will remain pending and credit control actions will be suspended until appeal has been evaluated by Indigent Appeals committee

18. SHORT TITLE

This policy shall be called the Indigent Support Policy of the City of Ekurhuleni.



IDP and BUDGET

2018/19 - 2020/21



Annexure D8

CREDIT CONTROL AND DEBT COLLECTION POLICY

CREDIT CONTROL AND DEBT COLLECTION POLICY

PREAMBLE

WHEREAS section 95(a) of the Local Government: Municipal Systems Act, No. 32 of 2000, provides that in relation to the levying of rates and other taxes by a municipality and the charging of fees for municipal services, a municipality must, within its financial and administrative capacity, establish a sound Customer Management System that aims to create a positive and reciprocal relationship between persons liable for these payments and the municipality and where applicable a service provider.

AND WHEREAS section 96(a) of the Local Government: Municipal Systems Act, No. 32 of 2000, provides that a municipality must collect all money that is due and payable to the municipality and for this purpose must adopt, maintain and implement a credit control and debt collection policy which is consistent with its rates and tariff policies and complies with the provisions of that Act.

AND WHEREAS section 97 of the Local Government: Municipal Systems Act, No 32 of 2000, provides that the credit control and debt collection policy must provide for credit control and debt collection procedures and mechanisms as well as provision for indigent debtors that is consistent with its rates and tariff policies and any national policies on indigents.

NOW THEREFORE the Council of the Ekurhuleni Metropolitan Municipality has adopted the **Credit Control and Debt Collection Policy** as set out hereunder: -

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1. DEFINITIONS

For the purpose of this policy, any word or expression to which a meaning has been assigned in the Act, shall bear the same meaning in this policy, and unless the context indicates otherwise –

| | |
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| "Account" | : Account in name of customer held with the City of Ekurhuleni |
| "Account Statement" | : formal notification by means of a statement of account to persons liable for payment of amounts levied for fees, charges, surcharges on fees, property rates and other municipal taxes and services, levies, penalties and duties, indicating the net accumulated balance of the account. |
| "Accounting Officer" | : means the person appointed by the Municipality as the City Manager of the Ekurhuleni Metropolitan Municipality in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998), responsible and accountable in terms of section 55(2) of the Local Government: Municipal Systems Act 2000 (Act 32 of 2000) and includes any person acting in such position and to whom the City Manager has delegated a power, function or duty. |
| "Act" | : means the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), as amended from time to time. |
| "Administration of Estates Act" | : means the Administration of Estates Act, 66 of 1965. |
| "Arrears" | : Amount due, owing and payable in respect of fees, charges, surcharges on fees, property rates and other municipal taxes and services, levies, penalties and duties and not paid by the due date. |
| "Authorised Officer" | : means any official of the Municipality who has been authorised by it to administer, implement and enforce the provisions of this policy. |
| "By-law" | : means a by-law adopted by the Municipality. |
| "Chief Financial Officer" | : means the person appointed by the municipality as Chief Financial Officer of the Ekurhuleni Metropolitan Municipality in terms of section 56 of the Local Government : Municipal Systems Act, 2000 (Act 32 of 2000). |

- “City Manager”** : means the person appointed by the Municipality as the City Manager of the Ekurhuleni Metropolitan Municipality in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998), and includes any person acting in such position and to whom the City Manager has delegated a power, function or duty.
- “collection charges”** : means collection charges which may be recovered by the Municipality in terms of section 75A of the Act, and includes the cost –
- (a) to remind debtors of arrears;
 - (b) for the termination and reconnection of services; and
 - (c) all legal costs, including attorney and own client costs incurred in the recovery of arrear amounts.
- "consolidated account"** : a monthly account reflecting all fees, charges, surcharges on fees, property rates and other municipal taxes and services, levies, penalties and duties in respect of various accounts held by customer.
- “Consumer”** : means any occupier of any premises to which the municipality has agreed to supply or is actually supplying municipal services, or if there is no occupier, the owner of the premises and or recipient and or consumer of various services rendered by the municipality. A customer will therefore be deemed a customer by virtue of receiving, consuming and or utilising any facility, equipment, service rendered by the municipality and or a municipal entity or an agent as appointed by the municipality.
- “Council”** : Means –
- (a) the “Municipality” and vice versa;
 - (b) the Council of the Ekurhuleni Metropolitan Municipality established by Provincial Notice No. 6768, as amended, exercising its legislative and executive authority through the municipality;
 - (c) its successor in title;
 - (d) a structure or person exercising a delegated power or carrying out an instruction, where any power in these by-laws has been delegated or sub-delegated, or an instruction given, as contemplated in section 59 of the Act; or
 - (e) a service provider fulfilling a responsibility under these by-laws, assigned to it in terms of section 81(2) of the act, or any other by-law, as the case may be.
- “customer”** : means “Consumer”.

| | |
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| "defaulter" | : any customer in arrears. |
| "illegal connection" | : a connection to any system through which municipal services are provided, which is not authorised or approved by the Municipality or its authorised agent. |
| "Indigent" | : Person referred to in the Indigent Support Policy of the Municipality. |
| "municipal entity" | : means a municipal entity of which the municipality is the parent municipality. |
| "municipality" | : means the "Council" and vice versa. |
| "occupier" | : means any person who occupies any premises or part thereof, without any regard to the title under which he or she so occupies. |
| "owner" | <ul style="list-style-type: none"> (a) in relation to a property referred to in paragraph (a) of the definition of "property", means a person in whose name ownership of the property is registered; (b) in relation to a right referred to in paragraph (b) of the definition of "property", means a person in whose name the right is registered; (c) in relation to a land tenure right referred to in paragraph (c) of the definition of "property", means a person in whose name the right is registered or to whom it was granted in terms of legislation; or (d) in relation to public service infrastructure referred to in paragraph (d) of the definition of "property", means the organ of state which owns or controls that public service infrastructure as envisaged in the definition of "publicly controlled" : provided that a person mentioned below may for the purpose of these by-laws be regarded by the Council as the owner of a property in the following cases: <ul style="list-style-type: none"> (i) A trustee, in the case of a property in a trust excluding state trust land; (ii) An executor or administrator, in the case of a property in a deceased estate; (iii) A trustee or liquidator, in the case of a property in an insolvent estate or in liquidation; (iv) A judicial manager, in the case of a property in the estate of a person under judicial management; (v) A curator, in the case of a property in the estate of a person under curatorship; |

- (vi) A person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufruct or other personal servitude;
 - (vii) A lessee, in the case of a property that is registered in the name of the Council and is leased by it; or
 - (viii) A buyer, in the case of a property that was sold by the Council and of which possession was given to the buyer pending registration of ownership in the name of the buyer.
- (e) any legal person, including but not limited to:
- (i) a company registered in terms of the Companies Act, 1973, a trust, a close corporation registered in terms of the Close Corporations Act, 1984; as amended by the Companies Act, 2008;
 - (ii) any department of State;
 - (iii) any council or board established in terms of any legislation applicable to the Republic of South Africa;
 - (iv) any embassy or other foreign entity.
- “Policy”** : means the Credit Control and Debt Collection Policy adopted by the Municipality.
- “property”** : (a) immovable property registered in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person;
- (b) a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;
- (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation; or
- (d) public service infrastructure.
- “Registered Property”** : Property registered in Deeds Office
- “stakeholder”** : means all natural and non-natural customers of the municipality and or prospective customers and or single or groups of people who consume or receive services from the municipality.
- “3rd party debt collection agencies”** : means any person or juristic person that collects debt on behalf of the municipality.

2. OBJECTIVE OF POLICY

The objective of this policy is to –

- (a) provide for customer management, credit control procedures and mechanisms and debt collection procedures and mechanisms;
- (b) provide for indigents in a way that is consistent with rates and tariff policies and any national and / or local policy on indigents;
- (c) set realistic targets consistent with –
 - (i) generally recognized accounting practices and collection ratios; and
 - (ii) the estimates of income set in the budget less an acceptable provision for bad debts.
- (d) provide for charging of interest on arrears, where appropriate;
- (e) provide for extensions of time for payment of accounts;
- (f) provide for termination of services or the restriction of the provision of services when payments are in the arrears;
- (g) provide for matters relating to unauthorized consumption of services, theft and damages;
- (h) provide for actions that may be taken by the municipality to secure payment of accounts that are in arrear including –
 - (i) The termination of municipal services or the restriction of the provision of services;
 - (ii) The seizure of property;
 - (iii) The attachment of rent payable on a property; or
 - (iv) The extension of liability to a director, trustee or a member if the debtor is a company, a trust or a close corporation.
- (i) provide for alternative debt repayment arrangements in accordance with the terms and conditions of this policy;
- (j) create an environment which enables a customer to repay the outstanding debt and establish culture of payment for services rendered by the municipality;
- (k) effectively and efficiently deal with defaulters in accordance with the terms and conditions of this policy; or
- (l) provide for procedures and mechanisms to ensure that all monies due and payable to the municipality are collected.

3. APPLICATION OF POLICY

3.1 Applicable Items

This policy shall apply to, but not be limited to, monies due and payable to the municipality for –

- (a) Property rates;
- (b) Municipal tax;
- (c) Fees, surcharges on fees, charges and tariffs in respect of municipal services, such as –
 - (i) provision of water;
 - (ii) refuse removal;
 - (iii) sewerage;
 - (iv) the removal and purification of sewerage;
 - (v) electricity consumption;

- (vi) Rental and or leasing of equipment, land, buildings and facilities of all types;
- (vii) interest which has accrued or will accrue in respect of money due and payable to the municipality;
- (viii) Burial fees;
- (ix) Dumping of refuse;
- (x) collection charges in those cases where the municipality is responsible for –
 - (aa) the rendering of municipal accounts in respect of any one or more of the municipal services;
 - (bb) the recovery of amounts due and payable in respect thereof, irrespective whether the municipal services, or any of them, are provided by the municipality itself or by a service utility with which it has concluded an agreement to provide a service on the municipality's behalf;
- (xi) any other charges levied from time to time.

- 3.2 This policy shall apply to municipal services provided through pre-paid meters;
- 3.3 This policy shall apply to any municipal entity of which the municipality is the parent municipality'
- 3.4 This policy shall apply to customers within the official demarcated boundaries of the municipality, including newly demarcated areas as determined by the demarcation board from time to time;
- 3.5 This policy shall apply to, but not be limited to, the following categories of customers –
 - (a) Residential customers of the municipality;
 - (b) Business customers of the municipality;
 - (c) Non-governmental organisations for profit and non-profit;
 - (d) Educational institutions for profit and non-profit;
 - (e) Religious institutions;
 - (f) National, provincial and local government;
 - (g) State owned entities;
 - (h) Any other category of customer as determined by the municipality from time to time.

4. CREDIT CONTROL AND DEBT COLLECTION PRINCIPLES

The credit control and debt collection policy is based on the following principles -

4.1 GENERAL

- (i) The policy and its application provides for the specific circumstances of the community to which it relates.
- (ii) The credit control and debt collection procedures must be understandable, uniform, fair and consistently applied.
- (iii) Credit control must be effective, efficient and economical.
- (iv) The measures taken must be sustainable in the long term.

4.2 COUNCIL

- (i) To enable the Council to differentiate between those customers that cannot pay from those that simply do not want to pay, the “Indigent Support Policy” will be applied.
- (ii) The Credit Control and Debt Collection Policy will be supported by procedure manual(s) as drafted by the Director Income or a nominee of the Accounting Officer.
- (iii) The Credit Control and Debt Collection Policy shall super cede all other policies aimed at achieving the same purpose to which the current credit control policy seeks to achieve.

4.3 CUSTOMERS

- (i) Customers found to have misrepresented themselves in order to benefit from any of the Councils relief and/or benefit in terms of this policy, will be deemed to have committed an offence and remedial measures will be taken in a manner as determined by the Council from time to time, and all relief and / or benefits that have been received, will be reversed to account of customer from date of offence.
- (ii) Notwithstanding anything contained in this policy, the Council will recover any debt relevant to registered property in terms of provisions of section 118 of the Municipal Systems Act, 32 of 2000.
- (iii) In the case of company, close corporation, trust in terms of the Trust Property Control Act No. 57 of 1988, home owners association or a body corporate in terms of the Sectional Titles Act, 1986 (Act No. 95 of 1986), the liability may be extended to the directors, members or trustees thereof jointly and severally, and –
 - the directors, members or trustees thereof shall be considered to have provided the Council with a guarantee that any debt shall be recoverable from themselves in their personal capacity with each being jointly and severally liable for such debt, the one paying the other to be absolved.
- (iv) Where any subsidiary company of a holding company is indebted to the Council, the liability for such arrears may be extended to the holding company.
- (v) Where any holding company is indebted to the Council, the liability for such arrears may be extended to the subsidiary company.
- (vii) The Council shall not conduct any business activity with or accept new services application to any customer who is in arrears with the Council except as provided for in legislation or policy as determined by the Council from time to time.
- (viii) The Council shall not refund any credit to any customer or customer’s nominee who is in arrears with the Council.

4.4 DECEASED ESTATES

In accordance with the provisions of Administration of Estates Act the executor of a Deceased Estate shall be liable for payment of all debts on the property.

It remains the sole responsibility of the occupiers to inform the Municipality that the property forms part of a deceased estate and the Municipality may refuse services until an executor has been appointed.

Occupiers of property in a deceased estate where neither an executor nor administrator has been appointed, may be required to sign a service level agreement.

4.5 COUNCILLOR SERVICES ACCOUNTS

In accordance with the provisions of Schedule 1, of the Municipal Systems Act, 32 of 2000, an elected councillor residing within demarcated area of the Council and is individually or jointly responsible for account, may not be in arrears for municipal service fees, surcharges on fees rates or any other municipal taxes, levies and duties levied by the Council for more than 3 (three) months.

Notwithstanding any relevant procedure, method or action that may be taken in terms of this policy, the City Manager may deduct amounts due for more than 3 (three) months from such councillor's remuneration.

4.6 STAFF SERVICES ACCOUNTS

In accordance with the provisions of Schedule 2, of the Municipal Systems Act, 32 of 2000, an official of council, residing within demarcated area of the Council and is individually or jointly responsible for account, may not be in arrears for municipal service fees, surcharges on fees rates or any other municipal taxes, levies and duties levied by the Council for more than 3 (three) months.

Notwithstanding any relevant procedure, method or action that may be taken in terms of this policy, the City Manager may deduct amounts due for more than 3 (three) months from such official's remuneration.

4.7 PROPERTY TRANSFER CLEARANCE - SECTION 118 OF LOCAL GOVERNMENT MUNICIPAL SYSTEMS ACT 32 OF 2000

Certificate in terms of Section 118(1) will only be issued if all amounts that became due in connection with that property for municipal service fees, surcharges on fees, property rates and other municipal taxes, levies and duties during the two years preceding the date of application for the certificate have been fully paid.

In terms of Section 118(3), an amount due for municipal service fees, surcharges on fees, property rates and other municipal taxes, levies and duties is a charge upon the property in connection with which the amount is owing and enjoys preference over any mortgage bond registered against the property.

The council may institute any legal proceedings and mechanisms available to recover full outstanding debt in terms of Section 118(3) including, lodging an urgent application to interdict the sale of the property until the debt is paid in full.

All Collection charges incurred in pursuing recovery of arrears, shall be levied against the debtors account.

Upon transfer of a property, a new owner is not liable for debts arising before transfer from the charge upon the property under section 118(3) of the Local Government: Municipal Systems Act 32 of 2000.

5. ACCOUNT ADMINISTRATION

5.1 ACCOUNTS

- (a) Accounts must be rendered and administered in accordance with the requirements of this policy.
- (b) Failure by the Council to render an account does not relieve a customer of the obligation to pay any amount that is due and payable.
- (c) The Council may, in accordance with the provisions of section 102 of the Act –
 - (i) Consolidate any separate accounts of customers liable for payments to the council;
 - (ii) Credit any payment by such customer against any account of that customer;
 - (iii) Implement any of the debt collection and credit control measures provided for in the Council's policies and by-laws, in relation to any arrears on any of the accounts of such a customer.
- (d) The amount due and payable by a customer constitutes a consolidated debt, and any payment made by a consumer of an amount less than the total amount due will be allocated in reduction of the consolidated debt in the order determined by the Council.
- (e) Where the property is owned by more than one person, each owner shall be jointly and severally liable, the one paying the other to be absolved, for all municipal debts charged on the property.

5.2 ACCOUNT QUERIES

- (a) Account query refers to the instance when a customer queries any specific amount or any content contained in any account as rendered by the Council;
- (b) Query must be raised in writing at any of the Council's administrative offices;
- (c) Customer to furnish in writing full personal particulars including acceptable means of identification, contact details and account number in respect of which amount owing is queried;
- (d) Customer may be represented by a duly appointed nominee or agent, and such nominee or agent shall upon request produce sufficient proof of such appointment;
- (e) Pending the outcome of query, customer may apply for temporary payment extension in terms of provisions of this policy;
- (f) the customer shall, pending the resolution and outcome of the query, continue to make regular payments on services that are **NOT** in dispute **PLUS** the average charges for the preceding three months prior to the arising of the dispute in respect of remaining part of account or disputed service until the resolution of that query;
- (g) should a customer not be satisfied with the outcome of the query, a customer may lodge an appeal in terms of section 62, as read with section 95 (f), of the Systems Act.

5.3 DISPUTE AS TO AMOUNT OWING

- (a) A customer may lodge an appeal in terms of section 62, as read with section 95 (f), of the Local Government: Municipal Systems Act 32 of 2000.
- (b) Customer to furnish in writing full personal particulars including acceptable means of identification, contact details and account number in respect of which amount owing is disputed.
- (c) Only disputes lodged by registered account holder will be considered.
- (d) Customer may be represented by a duly appointed nominee or agent, and such nominee or agent shall upon request produce sufficient proof of such appointment.
- (e) Should any written dispute arise as to the amount owing on the account in respect of all services by a customer, the customer shall, pending the resolution and outcome of that dispute, continue to make regular minimum payments based on the average charges for the preceding three months prior to the arising of the dispute, plus interest, until the resolution of that dispute.
- (f) Should any written dispute arise as to the amount owing on part of the account or service by a customer, the customer shall, pending the resolution and outcome of that dispute, continue to make regular payments on services that are **NOT** in dispute **PLUS** the average charges for the preceding three months prior to the arising of the dispute in respect of remaining part of account or disputed service until the resolution of that dispute.

5.4 INTEREST CHARGES

- (a) Accounts are due and payable on account due date.
- (b) Interest will be levied on all arrears at a rate prescribed by the Council from time to time.
- (c) Specific categories of customers, services and debtor groups as determined by the Council from time to time, may be excluded from interest on arrear charges.

5.5 ACCOUNT DUE DATE

- (a) Monthly account due date represents the date on which the customer's account becomes due and payable, the due date shall be as determined by the Council from time to time.
- (b) Where the owner has entered into an agreement with the Council to pay property rates annually, the due date shall be as determined by the Council from time to time.
- (c) Account due date will be reflected on customer account statement.
- (d) Only payments receipted through the Councils financial system on or before account due date will be deemed to have been duly received.
- (e) Payments by customers through 3rd party vendors, will only be deemed to have been received when receipted through the Councils financial system.

5.6 PAYMENT EXTENSION

5.6.1 Temporary Payment Extension

- (a) On written application by customer, requests for payment extension in respect of outstanding debt will be considered in the following circumstances:
 - (i) Customer account under inquiry.
 - (ii) Customer account under dispute.
 - (iii) Pending outcome or conclusion of court cases.
 - (iv) Merit cases as approved by Accounting Officer or delegated official.
- (b) Customer may be represented by a duly appointed nominee or agent, and such nominee or agent shall upon request produce sufficient proof of such appointment.
- (c) Payment extension will be granted for maximum period of 90 days from date of application and may be extended on month-to-month basis.
- (d) Payment extension will not result in the suspension of legal actions and / or court actions unless authorised by Accounting Officer.
- (e) Approved payment extension will result in the temporary suspension of credit control actions.
- (f) Approved payment extension will **NOT** result in the termination, extension or suspension of interest on arrears.
- (g) Consumers with an active debt re-payment arrangement do not qualify for payment extension application in respect of active or arrangement account.

5.6.2 Permanent Payment Extension

- (a) On written application by customer, requests for permanent alternative monthly payment due date (Permanent Payment Extension) will be considered.
- (b) Customer to furnish in the manner prescribed by Council, full personal particulars including acceptable means of identification, contact details and account number in respect of which application is made.
- (c) Customer may be represented by a duly appointed nominee or agent, and such nominee or agent shall upon request produce sufficient proof of such appointment.
- (d) Extension will be valid for minimum period of 12 (twelve) months.
- (e) Extension of account due date may be moved to any of the following alternative monthly due dates:
 - ▶ 5th
 - ▶ 10th
 - ▶ 15th
 - ▶ 20th
 - ▶ 25th
 - ▶ 30th
- (f) Extension will only be cancelled on written application by customer.

- (g) Where a consumer is found to default on permanent payment extension for at least three consecutive billing periods, the council at its sole discretion may cancel such payment extension.
- (h) On cancellation of extension, customer will revert to the original cycle due date.

5.7 ARREAR ACCOUNTS

- (a) If a consumer fails to pay the full amount due and payable on or before the account due date, the unpaid amount is in arrears and a final demand / Pre Termination notice shall be sent and may be hand delivered or delivered, per mail or any electronic means available, to the most recent recorded address or electronic contact address and/or number of the consumer.
- (b) Failure to deliver or send a final demand / Pre Termination notice does not relieve a consumer from paying such arrears.
- (c) The final demand / Pre Termination notice must contain the following :
 - (i) the minimum amount payable, and the date by which such amount must be paid;
 - (ii) that the consumer may conclude a debt repayment agreement with the Council for payment of the arrears amount in instalments;
 - (iii) that if full minimum amount payable is not paid and/or debt repayment agreement is not entered into within the stated period, that the electricity and/or water services will be discontinued or restricted and that legal action will be instituted against consumer for the recovery of any amounts in arrear, without further notice;
- (d) The customer together with the account(s) that is/are in default may be handed over to a duly appointed collection agent or attorney for collection;
- (e) The consumer's name may be made public, and may be listed with a credit bureau or any other equivalent body as a defaulter;
- (f) Proof of registration as an indigent customer must be handed in to the Council on or before the required date of payment contemplated in 5.5(a).

5.8 COST TO REMIND CUSTOMERS OF ARREARS

An administrative fee will be levied against the account of a customer in terms of the tariff provisions of the Council, in respect of any action taken in demanding payment from the customer or reminding the customer by means of notice delivered by mail, by hand or any electronic means available, that account is in arrears.

5.9 PAYMENT ALLOCATION PRIORITIES

Payments received in respect of consolidated debt will be allocated in the following priority order, with oldest outstanding debt being settled first irrespective of date of payment:

| Priority | Category |
|----------|--|
| 1 | Deposit raised |
| 2 | Arrangement instalment |
| 3 | Balance brought forward from previous financial system |
| 4 | Cash |

| | |
|----|---|
| 5 | Abeyance debt |
| 6 | Clearance debt in terms of Section 118 (Inside and Outside) |
| 7 | Disconnection fees |
| 8 | Legal costs |
| 10 | Interest services |
| 11 | Interest other |
| 12 | Interest housing |
| 13 | Interest loans |
| 15 | Assessment rates |
| 20 | Refuse service debt |
| 25 | Sewer service debt |
| 30 | Water service debt |
| 35 | Electricity service debt |
| 40 | Rental charges |
| 45 | Hostel fees |
| 50 | Housing charges |
| 55 | Ambulance fees |
| 60 | Emergency fees |
| 65 | Improvement district |
| 70 | Loans |
| 99 | Other (any other service debt raised to account) |

6. ACTIONS TO SECURE PAYMENT

- (a) The Council or its duly appointed agents may, in addition to the normal civil legal steps to secure payment of accounts that are in arrears, take the following actions to secure payment for property rates, municipal services, interest, penalties and other related charges namely -
 - (i) termination and / or restriction of the provision of any municipal services in accordance with paragraph 7; and
 - (ii) allocation of the full or portion of a payment of an account, or the full or portion of pre-paid service payment, as payment for arrears in accordance with paragraph 5.7.
- (b) The Council may further take the steps contemplated in section 104(1)(f)(ii) of the Municipal Systems Act, subject to the regulations made or guidelines issued by the Minister, if any, and provided that any intended seizure of property must be referred to the City Manager or his / her nominee for approval or such directives which the Council deems necessary under the circumstances.
- (c) The Council may, in terms of the provisions of section 104(1)(f)(iii) of the Municipal Systems Act, attach the rental or any other payments due to customers who are in arrears with their municipal accounts.
 - (i) If any debt levied in respect of a property is in arrears by the owner of the property, the arrears may be recovered in whole or in part from a tenant or occupier of the property, despite any contractual obligation to the contrary on the tenant or occupier;
 - (ii) Written notice has been served on the tenant or occupier and property owner or agent of property owner;
 - (iii) The tenant or occupier of property or agent of property owner must on request by the Council, furnish a written statement specifying rental and

- other payments to be made by the tenant or occupier to the owner of the property during a period as determined by Council;
- (iv) The amount the Council may recover from the tenant or occupier of a property is limited to the amount of rent payable by the tenant or occupier to the owner of the property;
 - (v) The Council may recover the arrear amount on a property in whole or in part from the agent of the registered owner;
 - (vi) Any amount recovered from the tenant or occupier will be set off against the arrears of the property owner.
- (d) The Council may, in the case of company, close corporation, trust in terms of the Trust Property Control Act No 57 of 1988, home owners association or a body corporate in terms of the Sectional Titles Act, 1986 (Act No 95 of 1986), extend the liability in respect of customer arrears to the directors, members or trustees thereof jointly and severally.
 - (e) The Council may, at the cost of the consumer, install water management device and/or pre-paid electricity meters upon the failure of the consumer to make regular payments to Council for services consumed.

7. POWER TO RESTRICT OR TERMINATE SUPPLY OF MUNICIPAL SERVICES

7.1 GENERAL

- (a) The Council or duly appointed agent may terminate and / or restrict the supply of water, electricity or in the case of pre-paid electricity withhold the selling of electricity in terms of the prescribed disconnection procedures, or discontinue any other service to any premises associated with the customer, whenever a consumer of any service –
 - (i) after the expiry of the period for payment in terms of the final demand/ final notice referred to in section 5.7, fails to make full payment on the due date or fails to make acceptable arrangements for the repayment of any amount for municipal services, property rates or taxes or other amounts due in terms of this policy;
 - (ii) no proof of registration as an indigent was furnished within the period provided for in the final demand / final notice referred to in section 5.7;
 - (iii) no payment was received in accordance with an agreement for payment of arrears;
 - (iv) fails to comply with a condition of supply imposed by the council;
 - (v) obstructs the efficient supply of electricity, water, or any other municipal services to another customer;
 - (vi) supplies such municipal service to a consumer/owner who is not entitled thereto or permits such service to continue;
 - (vii) causes a situation, which in the opinion of the council is dangerous, or a contravention of relevant legislation;
 - (viii) in any way bridges the supply or illegally reconnect previously disconnected municipal services;
 - (ix) is placed under provisional sequestration, liquidation or judicial management, or commits an act of insolvency in terms of the Insolvency Act, 1936 (Act 24 of 1936);
 - (x) is subject to an administration order granted in terms of section 74 of the Magistrates Court Act, 1944 (Act 32 of 1944) in respect of such user.

- (b) The Council shall hand deliver, per mail or per electronic means available, to the physical address of property or most recent recorded address or electronic contact address and / or number of such customer, a Pre-termination Notice informing such consumer –
 - (i) that the provision of the service will be discontinued on the date stated on the Pre-termination notice;
 - (ii) of the steps which can be taken to have the service reconnected;
 - (iii) of the minimum amount payable to restore service.
- (c) Subject to the provisions of the Promotion of Administrative Justice Act, 2000 (Act 3 of 2000), having been observed, save that the Council's reasons for its decision to act must be supplied within seven days after a request therefore.
- (d) The right of the Council or any duly appointed agent to restrict or discontinue water to any premises, owner of property, tenant on property, customer or occupant of property, shall be subject to the provisions of sections 3 and 4 of the Water Services Act, 1997 (Act 108 of 1997).
- (e) The right of the Council to restrict or discontinue the provision of electricity to any premises, owner of property, tenant on property, customer or occupant of property shall be subject to the provisions of the Electricity Act, 1987 (Act 41 of 1987).
- (f) The right of the Council or any duly appointed agent to limit or restrict the supply of municipal services to a customer shall be subject to the provisions of the Health Act, 1997 (Act 63 of 1997), and the regulations made there under.

7.2 COST TO RESTRICT OR DISCONTINUE SERVICES.

Where any municipal service is restricted or discontinued as a result of non-compliance with provisions of this policy by the customer, the Council shall at its prerogative be entitled to levy and recover:

- (i) Disconnection fee in terms of the tariff provisions of Council;
- (ii) Installation of water management devices as determined by the Council from time to time;
- (iii) Installation of a pre-paid electricity meter or equivalent as determined by Council from time to time;
- (iv) Consumer deposit held against customer account may be increased subject to the provisions of deposit policy and tariff provisions of Council;
- (v) Any other applicable fees, tariffs, charges in terms of tariff provisions of Council.

8. RECONNECTION OF MUNICIPAL SERVICES

8.1 GENERAL

- (a) Services, restricted or disconnected in terms of section 7, will only be reinstated and reconnected after satisfactory payment or satisfactory arrangement for payment of arrears; penalties and/or adjusted deposit have been made in accordance to this policy.
- (b) Services may only be reinstated or reconnected by Council or duly appointed agent.
- (c) Subject to capacity at the time to restore such services which have been restricted or disconnected, such services will be restored within a reasonable time after the relevant conditions of this policy have been met.

- (d) Onus shall be on the customer to request reconnection and to prove that the full amount as required has been paid.

8.2 COST FOR THE RECONNECTION OF SERVICES

Where any instruction is issued by Council for the reinstatement of normal service flow or reconnection of municipal service, restricted or disconnected in terms of this policy, reconnection fee will be levied in terms of tariff provisions of Council.

9. DEBT REPAYMENT ARRANGEMENTS

9.1 GENERAL PRINCIPLES

- (a) Only a customer with positive proof of identity or a person authorised, in writing, by that customer or -
 - (i) a letter of appointment by Magistrate Court, where there is a signed rental contract between the owner and tenant;
 - (i) a letter of consent from an Agent;
 - (ii) a letter of Authority from the Magistrate/High Court/Registered Attorney/Advocatewill be allowed to enter into a debt repayment agreement for the payment of arrears in instalments.
- (b) If applicant is a tenant on property, written consent by owner to Debt Repayment Arrangement by tenant is required whereby owner acknowledges debt and approves entering into debt repayment arrangement.
- (c) If applicant is a company, close corporation, trust in terms of the Trust Property Control Act No. 57 of 1988, home owners association or a body corporate in terms of the Sectional Titles Act, 1986 (Act No 95 of 1986), debt repayment arrangement to be signed by duly authorised member with submission of signed deed of personal surety in terms of 6(d) by each of listed Directors, members or trustees of such juristic person.
- (d) The amount due and payable by a customer constitutes a consolidated debt, and any payment made by a consumer will be allocated in reduction of the consolidated debt in the order determined by the Council.
- (e) A consumer may be required to complete a debit order for the payment of arrears.

9.2 DURATION AND CONDITIONS FOR PAYMENT OF ARREARS IN INSTALMENTS

- (a) No agreement for the payment of arrears concluded by the nominated officers of the Accounting Officer be longer than 36 months, unless the circumstances referred to in section 9.2(b) prevail.
- (b) The Council may, on an individual basis, allow a longer period than 36 months for the payment of arrears, if –
 - (i) special circumstances prevail, which in the opinion of the Council warrants such an extension, and which the consumer could not reasonably prevent or avoid;

- (ii) documentary proof of any such special circumstances has been furnished by the consumer on request by the Council;
 - (iii) approval has been obtained by the Accounting Officer or his delegate in terms of prescribed procedures.
- (c) This extension of the repayment period in 9.2(b) may not be longer than an additional 36 months.
- (d) The customer may be required to prove levels of income and must agree to a monthly instalment;
- (e) The Council must, in exercising its discretion under paragraph (a) and (b) have regard to a consumer's –
 - (i) credit record;
 - (ii) previous and frequency of dishonoured payments;
 - (iii) instances of proven meter tampering or illegal connection – may impact on arrangement application and minimum down payment requirements may be increased based on financial risk as determined by Divisional Head Revenue or nominee.
 - (iv) consumption and level of service;
 - (v) previous breaches of agreements for the payment of arrears in instalments;
 - (vi) provisions of National Credit Act; and
 - (vii) any other relevant factors.
- (f) The customer shall be required to make a down payment based on consolidated arrear debt on date of entering into an agreement to pay in instalments on the following basis:
 - (i) 1st Debt Repayment arrangement: 0%
 - (ii) 2nd Debt Repayment arrangement: 15%
 - (iii) 3rd Debt Repayment Arrangement: 30%
 - (iv) Additional Debt Repayment Arrangement: 30%

The above-mentioned minimum down payment requirements may be amended, on an individual basis, on submission of request by account holder to the Divisional Head Revenue or nominee.
- (g) Once an agreement referred to in 9.1 has been concluded, the amount in arrears shall be reflected as a current amount, and no further interest shall be added to arrangement debt.
- (h) The customer will be required to effect payment of current plus arrangement instalment on or before account due date, failure which will result in the immediate cancellation of debt repayment arrangement.
- (i) Customers who default on three occasions in respect of debt repayment arrangements made, may be denied facility to enter into further debt repayment arrangements and full amount becomes due and payable.
- (j) If the customer defaults on the third debt repayment arrangement, a further arrangement may be granted to the customer by the Director or his/her nominee on submission of full motivation.
- (k) In the case of multiple defaults the following steps may be undertaken:
 - (i) Installation of water management devices as determined by the Council from time to time;
 - (ii) Installation of a pre-paid electricity meter or equivalent as determined by Council from time to time.
- (l) A copy of the agreement must be made available to the consumer.

10. AGENTS, ATTORNEYS AND OTHER COLLECTION AGENTS

- (a) The names of all external agents acting on behalf of the Council, together with their addressed and contact information may be published in a manner that will ensure that it will come to the attention of the customers of the municipality.
- (b) Under no circumstances may agents negotiate terms, extend payment periods or accept cash on behalf of the Council, unless specifically instructed in writing to do so, and such instruction must be produced on request of a customer.
- (c) An agent must record the cost to the Council and a customer for each stage of the credit control measures taken by him or her and for all possible actions which could be necessary in the credit control process.
- (d) All legal and debt collection costs, including attorney and own client costs incurred by the Council and/or appointed agents in the recovery of arrear amounts, may be levied against the arrears account of the customer, and may be recovered by a duly appointed agent.

11. LEGAL ACTION

- (a) Should any debtor fail to pay any debt, referred to in this policy or section 118 (3) of the Local Government: Municipal Systems Act 32 of 2000 by due date, the Accounting Officer may serve a notice in terms of section 115 of the Local Government: Municipal Systems Act 32 of 2000, –
 - (i) on the debtor, and
 - (ii) on the property,calling upon such debtor to pay such debt within 30 (thirty) days of such notice.

The notice shall state that should debt per notice not be settled within 30 (thirty) days of such notice, legal proceedings will be instituted for the recovery of debt plus any additional costs incurred in the application of this policy and will further an order of Court for the sale of the customers moveable and immovable property for the outstanding debt.
- (b) If after giving notification in terms of section 11(a) such debt remains outstanding, legal proceedings will be instituted through court of competent jurisdiction, against customer.
- (c) Such court of competent jurisdiction shall be requested to summarily order any such moveable and immovable property against which the debt is owing to be sold by way of public auction in terms of provisions of section 104(1)(f)(ii) of the Local Government : Municipal Systems Act 32 of 2000 subject to the regulations made or guidelines issued by the Minister, if any, and provided that any intended seizure of property must be referred to the Accounting Officer or his/her nominee for approval or such directives which the Council deems necessary under the circumstances.

12. DISHONoured PAYMENTS

- (a) Where any payment is made to the municipality by a negotiable instrument, and such negotiable instrument is dishonoured by the bank, the Council may levy costs and administration fees against the account of the defaulting debtor at the rate determined by the Council from time to time.

- (b) Payment to the account will be reversed and credit control will immediately be affected on such accounts without any further notice.
- (c) The Council reserves the right to refuse to accept or cancel such further payment instruments from customer.
- (d) The Council may place the customer on the relevant adverse credit rating list and/or take any steps as contained in this policy which may include criminal charges if applicable.
- (e) Where a payment referred to in section 12(a) was tendered and any debt management action in terms of this policy was suspended as result of deemed payment, such debt management action shall continue without further notice to such customer.

13. WRITING OFF OF BAD DEBTS

The Council will consider writing off bad debts –

- (a) Only after all reasonable steps have been taken to recover the debt in accordance with this policy, and the Council has convinced itself that:
 - (i) recovery of the debt would be uneconomical; or
 - (ii) recovery would cause undue hardship to the customer or his/her dependants; or
 - (iii) it would be to the advantage of the Council to effect a settlement of its claim or to waive a claim.
- (b) The debt to be written off as determined in (a) above will only be effected:
 - (i) in terms of council policy; or
 - (ii) in terms of legislation; or
 - (iii) in terms of delegated powers; or
 - (iv) in terms of regulations issued.

14. FULL AND FINAL SETTLEMENT OF A DEBT

- (a) The Council may appropriate monies received in respect of any municipal debt at its sole discretion as stipulated in terms of Section 102 of the Municipal Systems Act
- (b) Where the exact amount due and payable to the municipality has not been paid in full, any lesser amount tendered to and accepted by Council, shall not be deemed to be in full and final settlement of such an amount, unless accepted in terms of a power delegated authority.
- (c) The provisions in subsection (b) shall prevail notwithstanding the fact that such lesser payment was tendered and/or accepted in full settlement.
- (d) The acceptance of a lesser amount, by an authorised officer of Council, duly delegated to act in this capacity, must be in writing and signed by both parties.

15. CREDIT BUREAU LISTING OR SIMILAR

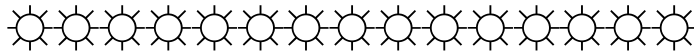
The names of debtors must, after court judgement, be automatically listed with credit bureaus or similar mediums as prescribed and or deemed fit by Council.

16. FRAUD, THEFT AND OTHER CRIMINAL ACTIVITY

- (a) Subject to applicable legislation, the Council may refuse the supply of water or electricity to a consumer who is found guilty of fraud, theft or any other criminal offence, or, where it is evident that such criminal offence has occurred, until such time as the total costs, penalties, other fees, illegal consumption and any applicable tariffs and rates due to the Council have been paid in full.
- (b) Illegal connection, reconnection or tampering with a service supply of Council is considered a criminal offence which will result in legal actions being taken and the immediate cancellation of user agreement between council and consumer.
- (c) Council reserves the right to refuse service agreement with tenant where illegal connection, reconnection or tampering with service supply has been identified and as such will only consider new consumer agreement with owner of property.
- (d) The owner of the property remains liable and responsible for all instances of unauthorized reconnections, tampering, damage or theft of municipal service infrastructure installed on the property.

17. SHORT TITLE

This policy shall be called the Credit Control and Debt Collection Policy of Ekurhuleni Metropolitan Municipality.



IDP and BUDGET

2018/19 - 2020/21



Annexure D9

PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY

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PROVISION FOR DOUBTFUL DEBT AND DEBT WRITE-OFF POLICY

1. APPLICATION AND SCOPE

The Provision for Doubtful Debt and Debt Write-Off Policy is applicable to the City of Ekurhuleni as well as to all of the municipal entities of the Metro, being:

- Brakpan Bus Company;
- East Rand Water Care Company; and
- Ekurhuleni Development Company, including Pharoe Park, Phase Two and Lethabong Housing Institute.

NOW THEREFORE the Council of the City of Ekurhuleni has adopted the Provision for Doubtful Debt and Debt Write-off Policy as set out hereunder –

2. OBJECTIVES OF POLICY

- To ensure that debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable.
- To ensure that uncollectable debt is written off within guidelines of existing policies and applicable legislation.

3. INTRODUCTION

The effective management of debtors include, amongst others, the following processes:

- Implementation/Maintenance of the appropriate ICT Systems and Business Processes;
- Accurate billing;
- Customer care and accounts enquiry management;
- Effective and timeous credit control;
- Impairment of debtors (Provision for Doubtful Debtors);
- Write-off of uncollectable debtors.

This policy provides guidelines on the treatment of the impairment and write-off of debtors.

4. IMPAIRMENT OF DEBTORS

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis, or based on expected cash flows.

In accordance with IAS 39, an objective assessment of financial assets is made at financial year-end in order to determine possible impairment. Impairment loss is recognized as an expense in the Statement of Financial Performance.

Individual classes of loans and receivables are assessed for impairment using the following methodologies:

4.1 CONSUMER DEBTORS

Consumer Debtors are evaluated at each reporting date and impaired as follows:

| Category of Debtor | Percentage of debt regarded as collectable | Percentage of debt provided for as irrecoverable (ie Impairment Percentage) |
|---|--|--|
| Outstanding balance at beginning of reporting period - | | |
| • no receipts during reporting period. | Zero | 100% |
| • receipts during reporting period less than outstanding balance at beginning of reporting period. | Zero | 100% |
| • receipts during reporting period in excess of outstanding balance at beginning of reporting period - | | |
| o Debt ageing 90+ days | 0-90 Days = 100% | 90+ Days = 100% |
| o Debt ageing less than 90 days | 100% | Zero |
| No Outstanding balance at beginning of reporting period - | | |
| o Debt ageing 90+ days | 0-90 Days = 100% | 90+ Days = 100% less average payment collection rate over preceding 12 months |
| o Debt ageing less than 90 days | 100% | Zero |
| Housing rental debtors | | |
| • Debt ageing 90 days+ | Zero | 100% |
| • Debt ageing 0-90 Days | 100% | Zero |

In terms of the provisions of GRAP standard AG125, the above-mentioned "Percentage of debt provided for as irrecoverable" will be reviewed and adjusted at the Statement of Financial Position date on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows will be reviewed to reduce any differences between loss estimates and actual loss experience.

4.2 SUNDRY DEPOSITS

Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable.

4.3 SUNDRY DEBTORS

Sundry debtors are those Suspense Control Accounts classified as financial instruments with debit balances as at year-end. Sundry debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

5. WRITE-OFF OF DOUBTFUL DEBTORS

Where debts are identified as being irrecoverable (in periods subsequent to debtors being impaired), the process of write-off will be treated as follows:

5.1 AMOUNTS EQUAL TO OR LOWER THAN AMOUNTS DELEGATED TO THE CHIEF FINANCIAL OFFICER BY COUNCIL FROM TIME TO TIME

Report of irrecoverable debtors detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective must be submitted to Divisional Head Revenue.

Report containing recommendations of Divisional Head Revenue must be presented to the Chief Financial Officer for consideration.

Requests approved by the CFO will be processed against the relevant debtors account and reflected as debit against Bad Debt Provision.

Reconciliation of Provision for Doubtful Debtors Account must be prepared annually by the Divisional Head Revenue and retained for audit purposes.

5.2 AMOUNTS EXCEEDING THE CFO'S DELEGATED AUTHORITY

Report of irrecoverable debtors detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted and that further actions would be fruitless and not cost effective must be submitted to Divisional Head Revenue.

Report containing recommendations of Divisional Head Revenue must be presented to the Chief Financial Officer for consideration.

If approved by the Chief Financial Officer, a formal report must be submitted to the Finance Oversight Committee, Mayoral Committee and Council for consideration.

Approvals granted by Council must be processed against the relevant debtors account and reflected as debit against bad debt provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the Divisional Head Revenue and retained for audit purposes.

5.3 APPLICATION OF PRESCRIPTION ACT

The provisions of Prescription Act will apply to all services debt, excluding assessment rates. Applications and/or claims for prescription from debtors will only be assessed if no formal credit control or legal actions have been instituted during prescription debt period of three (3) years.

Income manager will assess application in terms of prescribed requirements. If in compliance with Prescription Act, report of irrecoverable debts detailing the nature of the underlying debt, conditions that led to the debt being identified as being prescribed, details on credit and debt collection processes followed to recover the debt and confirmation that debt has prescribed must be submitted to Divisional Head Revenue for consideration and approval.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the Divisional Head Revenue and retained for audit purposes.

5.4 SPECIFIC DEBT-WRITE-OFF INCENTIVES.

Divisional Head Revenue to identify and investigate specific uncollectable debt categories. Report with full details as to the reasons for categorized debt write-off to be submitted to council for approval.

Approvals granted must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Reconciliation of the Provision for Doubtful Debtors Account must be prepared annually by the Divisional Head Revenue and retained for audit purposes.

5.5 OTHER WRITE-OFFS.

Department/Entity identify deemed irrecoverable debts and prepare report detailing the nature of the underlying debt, conditions that led to the debt being identified as being irrecoverable, details on credit and debt collection processes followed to recover the debt and confirmation that all available avenues to recover the debt have been exhausted.

If approved by the Chief Financial Officer, formal report must be submitted to the Finance Oversight Committee, Mayoral Committee and Council for consideration.

5.6 COUNCIL APPROVED WRITE-OFF SCHEMES.

Council approved incentives or debt write-off schemes must be processed against the relevant debtors account and reflected as debit against Bad Debt Provision in the financial ledger.

Incentives or debt write-offs to be processed to individual qualifying debtors accounts for the duration of scheme.



IDP and BUDGET

2018/19 - 2020/21



Annexure D10

BUDGET IMPLEMENTATION AND MONITORING

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BUDGET IMPLEMENTATION AND MONITORING POLICY

1. APPLICATION AND SCOPE

The Budget Implementation and Monitoring Policy are applicable to the City of Ekurhuleni as well as to all of the municipal entities of the Metro, being:

- Brakpan Bus Company;
- East Rand Water Care Company; and
- Ekurhuleni Housing Company, including Pharoe Park, Phase Two and Lethabong Housing Institute.

The policy, **as amended**, will be effective as from 1 July 2018.

2. OBJECTIVES OF POLICY

The purpose of the Budget Management Policy is to provide a framework for the processes and procedures to be followed in the compilation of the annual three-year budgets for both operating and capital expenditure. The framework will serve as a guideline to all departments and municipal entities for the compilation of operational business plans and budgets. This Policy document will be the guiding document when the metro does its reporting to Council and all provincial and national government departments. It is intended that this Policy will enhance compliance with the MFMA.

- To ensure effective budget monitoring;
- To ensure compliance with the MFMA Budget and Reporting Regulations.

This policy deals with the following:

- Budget management and oversight;
- Shifting of funds within votes;
- Introduction of adjustments budget;
- Unforeseen and unavoidable expenditure; and
- Unauthorised expenditure approved by the mayor.

3. LEGISLATIVE FRAMEWORK

The National Treasury issued the Budget Regulations on the 17th April 2009 in Government Gazette number 32141. The regulations came into effect on the 1st July 2009.

The regulations deal with the following matters amongst others:

- Only one main adjustments budget may be considered by Council, but there are a number of exceptions where adjustments budgets can be dealt with:
 - If a national or provincial adjustments budget allocates additional revenue to a municipality;
 - When unforeseeable and unavoidable expenditure is incurred and approved by the mayor;
 - Approval of roll-overs (to be approved before the 25th August annually);
 - Approval of un-authorised expenditure when the Mayor tables the annual report.

- In-year reports must be prepared in the prescribed format;
- The monthly budget statements must be placed on the municipality's website;
- Municipal entities must comply with a similar process as prescribed to municipalities.

4. BACKGROUND

According to the MFMA section 62, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure

- That the resources of the municipality are used effectively, efficiently and economically;
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control, and of internal audit operating in accordance with any prescribed norms and standards; and
- That unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

It is against this backdrop that the Metro realised a need for a Budget Management Policy.

The Policy aims to:

- Establish and maintain a Policy framework by which managers can compile, control and review departmental and municipal entities' (MEs) budgets to ensure efficient and effective financial management.
- Ensure that funds are managed carefully and transparently.
- Ensure compliance with the provisions of the MFMA and the MBRR.

The Policy provides guidelines and procedures with regard to:

- Roles and responsibilities of the Executive Mayor, City Manager, Chief Financial Officer and other senior officials
- The compilation of both the operating and capital budget
- Budget monitoring and reporting
- Adjustments budget
- Unavoidable and unforeseen expenditure
- Unauthorised, irregular or fruitless and wasteful expenditure

5. ROLES AND RESPONSIBILITIES

5.1 Role of the Mayor (sections 52-59 MFMA)

The role of the Executive Mayor is detailed in sections 52- 59 of the MFMA. In terms of section 53 of the Act the Mayor of a municipality must-

- 5.1.1 Provide general political guidance over the budget process and the priorities that must guide the preparation of a budget.
- 5.1.2 Coordinate the annual revision of the integrated development plan in terms of section 34 of the Municipal Systems Act and the preparation of the annual budget, and determine how the integrated development plan is to be taken into account or revised for the purpose of the budget; and

- 5.1.3 Take all reasonable steps to ensure that-
 - (a) the municipality approves its annual budget before the start of the budget year;
 - (b) the municipality's service delivery and budget implementation plan is approved by the mayor within 28 days after the approval of the budget;
 - (c) the annual performance agreements as required in terms of section 57(1) (b) of the Municipal Systems Act for the municipal manager and all senior managers.
- 5.1.4 Promptly report to the municipal council and the MEC for finance in the province any delay in the tabling of an annual budget, the approval of the service delivery and budget implementation plan or the signing of the annual performance agreements.
- 5.1.5 The Mayor must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial State of affairs of the municipality; and
- 5.1.6 The Mayor must ensure-
 - (a) that the revenue and expenditure projections for each month and service delivery targets and performance indicators for each quarter, as set out in the SDBIP, are made public no
 - (b) later than 14 days after the approval of the SDBIP; and that the performance agreements of the municipal manager and any other categories of officials as may be prescribed, are made public no later than 14 days after the approval of the municipality's SDBIP. Copies of such performance agreements must be submitted to the council and the MEC for local government in the province.
- 5.1.7 Check whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan.
- 5.1.8 Instructions to the accounting officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan and that spending of funds and revenue collection proceed in accordance with the budget.
- 5.1.9 In terms of section 56 of the Act the Mayor must give guidance to the municipality in exercising its rights and powers over MEs in a way-
 - (a) that would reasonably ensure that MEs comply with the Act and at all times remain accountable to the municipality;
 - (b) that would not impede the entity from performing its operational responsibilities.
- 5.1.10 In terms of regulation 4(1) of the MBRR, the Mayor must establish a Budget Steering Committee to provide technical assistance with regard to the budget process and related matters. Such a committee must consist of at least the following people:
 - (a) MMC for Finance
 - (b) The City Manager
 - (c) The CFO

- (d) Senior managers responsible for at least the three largest votes in the municipality
- (e) The manager responsible for budgeting
- (f) The manager responsible for planning
- (g) Technical experts on infrastructure

5.2 Role of the Accounting Officer (Municipal Manager)

The Municipal Manager is the accounting officer and the administrative authority for the municipality. The City Manager is accountable to the Executive Mayor for the implementation of specific agreed outputs. The City Manager is also accountable to Council for the overall administration of the municipality.

The City Manager must be fully aware of the reforms required in order to provide the Executive Mayor, councillors, senior officials and municipal entities with the appropriate guidance and advice on financial and budget issues. Whilst the City Manager may delegate many tasks to the Chief Financial Officer or other senior officials, this must be done carefully to ensure that all tasks are completed appropriately.

The Accounting Officer (City Manager) must-

- 5.2.1 Assist the Mayor in performing the budgetary functions assigned to the Mayor in terms of chapters 4 and 7 of the MFMA;
- 5.2.2 Provide the Mayor with the administrative support, resources and information necessary for the performance of those functions.
- 5.2.3 Implement the municipal's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced if necessary when revenue is anticipated to be less than projected in the budget or SDBIP;
- 5.2.4 Ensure that revenue and expenditure are properly monitored.
- 5.2.5 When necessary, the accounting officer must prepare an adjustments budget and submit it to the Mayor for consideration and tabling in Council.
- 5.2.6 Report to Council any shortfalls in budget revenue, overspending and necessary steps taken to prevent shortfalls or overspending.
- 5.2.7 Submit to the Mayor actual revenue, borrowings, expenditure and where necessary report on variances on the approved budget.
- 5.2.8 By 25 January of each year assess the performance of the municipality during the first half of the financial year, and submit a report on such assessment to the Mayor, the National Treasury and the Provincial Treasury.
- 5.2.9 Such an assessment should take into account the following:
 - (a) The monthly statements referred to in section 71 of the Act for the first half of the financial year;
 - (b) The municipality's service delivery performance during the first half of the financial year, and service delivery targets

- implementation plan;
- (c) The past year's annual report, and progress on resolving problems identified in the annual report; and
- (d) The performance of every municipal entity under the sole or shared control of the municipality, taking into account reports in terms of section 88 of the Act from any such entities.

5.3 Role of the Chief Financial Officer (CFO)

The Chief Financial Officer is the administrative head of the Budget and Treasury Office. The CFO has an essential function of assisting the City Manager to carry out his or her financial management responsibilities, in areas ranging from budget preparation to financial reporting and the development and maintenance of internal control procedures. The CFO plays a central role in implementing financial reforms at the direction of the City Manager with the assistance of appropriately skilled staff.

The CFO of a municipality-

- 5.3.1 is administratively in charge of the Budget and Treasury Office;
 - 5.3.2 must advise the accounting officer on the exercise of powers and duties assigned to the accounting officer in terms of the MFMA;
 - 5.3.3 must assist the accounting officer in the administration of the municipality's bank accounts and in the preparation and implementation of the municipality's budget;
 - 5.3.4 must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79 of the Act; and
 - 5.3.5 must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review and other duties as may in terms of section 79 be delegated by the accounting officer to the chief financial officer
- The CFO is accountable to the accounting officer for the performance of the duties outlined above.

5.4 The role of senior managers and other officials

According to section 78 of the MFMA, the following are the roles to be carried out by the senior managers and other officials:

- 5.4.1 Ensure that the system of financial management and internal controls established for the municipality is carried out diligently.
- 5.4.2 Ensure that resources of the municipality are utilised effectively efficiently, economically and transparently.
- 5.4.3 Prevent unauthorised, irregular or fruitless and wasteful expenditure and other losses.
- 5.4.4 Collection of revenue.

5.4.5 Safeguarding and maintenance of assets.

5.4.6 Submission of information to the accounting officer for compliance with the Act.

5.5 Role of the Chief Executive Officer (CEO)

The CEO of a municipal entity is the accounting officer of that entity. Sections 93-107 of the Act detail the roles and responsibilities of the CEO in the following broad categories:

- Fiduciary duties;
- General financial management of the entity;
- Asset and liability management;
- Revenue management;
- Monthly reconciliation of revenue and accounts;
- Expenditure management;
- Budget implementation; and
- Reporting.

6. BUDGET MANAGEMENT AND OVERSIGHT

Section 71(1) of the Municipal Finance Management Act reads, inter alia, as follows:

“The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality’s budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- (a) Actual revenue, per revenue source;*
- (b) actual borrowings;*
- (c) actual expenditure, per vote;*
- (d) actual capital expenditure, per vote;*
- (e) the amount of any allocations received;*
- (f) actual expenditure on those allocations, excluding expenditure on—*
 - (i) its share of the local government equitable share; and*
 - (ii) allocations exempted by the annual Division of Revenue Act from compliance with this paragraph; and*
- (g) when necessary, an explanation of—*
 - (i) any material variances from the municipality’s projected revenue by source, and from the municipality’s expenditure projections per vote;*
 - (ii) any material variances from the service delivery and budget implementation plan; and*
 - (iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality’s approved budget.”*

The Finance Department will facilitate the section 71 in-year reporting process as follows:

- Financial month end reports will be available on the seventh working day of the month;
- Reports detailing the following information will be circulated to the Senior Management Team and heads of departments:
 - Actual Operating Revenue/Expenditure for the month compared to the budget for the month per category;

- Actual Operating Revenue/ Expenditure for the year to date compared to the budget for the year to date;
 - Actual Operating Revenue/Expenditure for the year to date compared to the budget for the full year;
 - Capital Budget Expenditure for the month compared to the budget for the month;
 - Capital Budget Expenditure for the year to date compared to the budget for the year to date;
 - Capital Budget Expenditure for the year to date compared to the budget for the full year;
 - Grant allocations received as well as expenditure against those grants for the year to date;
 - Details of unspent grant funding;
 - Other relevant statistics;
- Monthly financial statements will be compiled;
 - Reports will be submitted to the executive mayor on the 10th working day of each month;
 - A formal report with a full analysis of the financial results will be submitted to the Mayoral Committee on a monthly basis – this report will contain the financial information of the Metro in total with details of the financial performance per department. This report will contain a quality certificate signed by the Accounting officer as required by section 5 of the Municipal Budget and Reporting Regulations;
 - Each head of department will be required to analyse the financial results of his/her department;
 - Automated budget monitoring will be implemented through the blocking of all financial transactions (placing of orders, payments, journals, etc.) unless sufficient budget is available on the relevant line item on the financial system;
 - Salary integration journals will be excluded from the abovementioned process. Financial control on salary payments will be affected through the PEELOW/Payday integration and data integrity check process;
 - Any anticipated over-expenditures must be reported to the chief financial officer as soon as it is identified by the relevant head of department;
 - Re-prioritisation of budgets will be allowed to facilitate shifting of funds towards anticipated over-expenditure items as identified above.

6.1 Budget Information Forum

- The purpose of the Budget Information Forum (BIF) are to provide Budget Office (BO) with a broad understanding of what is happening in departments through continuous monitoring and reporting on municipal performance.
- BIF will serve as a recognised working committee of IBALCO and Budget Steering Committee.
- Provide assistance and support to departments in respect of compliance with MFMA thereby promoting the objectives of the Act and all other statutory regulations.
- To monitor, report and clarify any progress, risk and challenges emanating from Sec 71-72 reports, mid-year, IBALCO and Budget Steering Committee assessments.
- To promote alignment and synergy with any existing IGR structures to form
- alignment and integration to avoid any possible duplication with respect to
- functioning and work programmes of such structures.
- The BIF will be used to update the information system with the relevant reports, departmental responses and any other supporting document from the engagement. This will be done in conjunction with the Information Management Directorate.

- Establish needs and support requirements from departments for Finance
- Present on any MFMA Legislative reforms and prescripts
- Share financial management best practices
- Serve as a Mini municipal CFO forum
- The BIF Team will work together to understand the business of the departments within the context of the Municipality as a whole and the changing context within the municipality.
- The BIF Team should be seen as think tank and able to answer on all the questions that can be raised about the Municipality and all departments. The responses should inform any enquiry or assessment of the relevant department for which they are responsible.

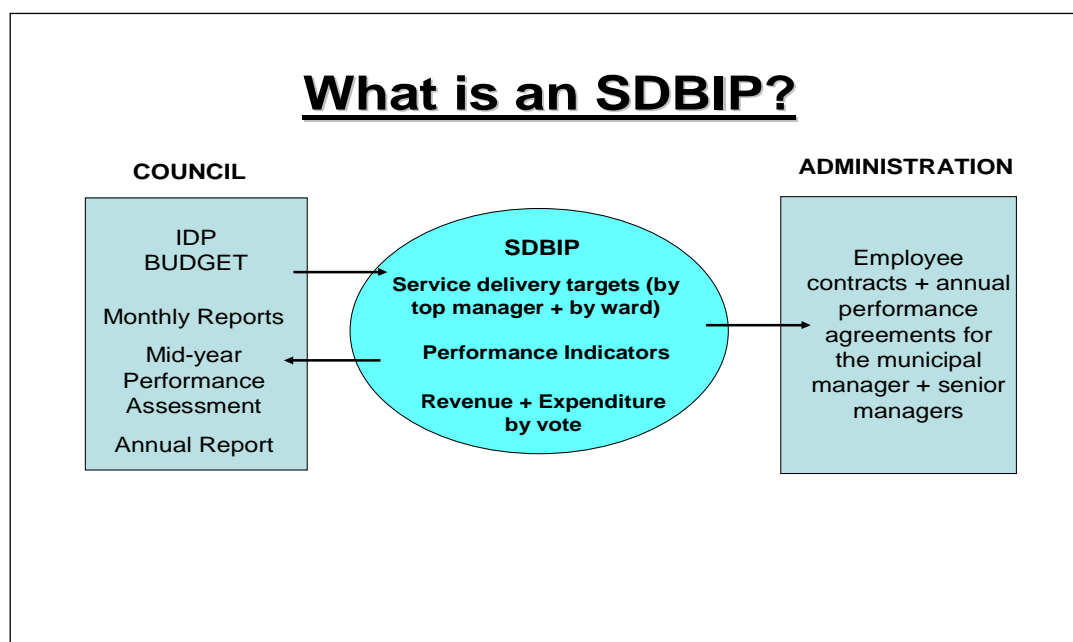
7. SHIFTING OF FUNDS WITHIN VOTES (VIREMENTS)

A separate policy has been compiled and is tabled as Annexure D20 of the Budget Related Policies.

8. INTRODUCTION OF AN ADJUSTMENTS BUDGET

The SDBIP which gives effect to the Integrated Development Plan (IDP) and the municipality's budget as one aligned process in conjunction with the performance agreements of senior managers.

The SDBIP serves as a 'contract' between the administration, council and community expressing the goals and objectives set by council as quantifiable outcomes that can be implemented by the administration over the next twelve months. This provides the basis for measuring performance in service delivery against end-of-year targets and implementing the budget. The SDBIP can be summarized visually as follows: ¹



For the SDBIP to be useful, regular reporting is essential. Various progress reports must be submitted to Council for consideration during January of each year. These reports include:

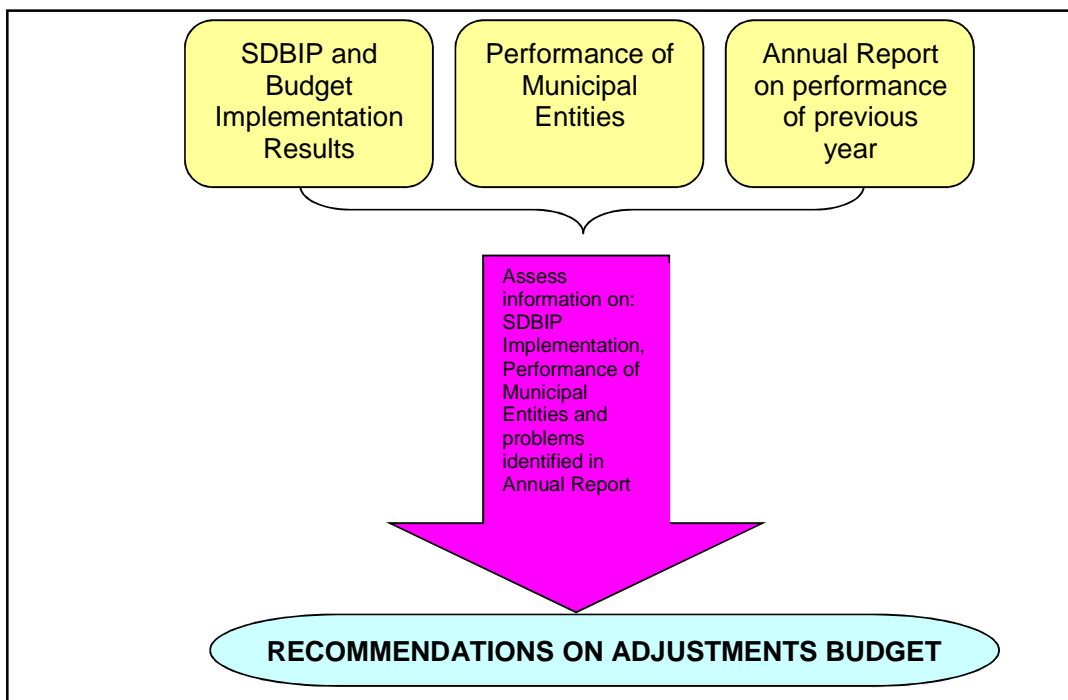
¹ MFMA Circular 13 issued February 2005

The quarterly SDBIP report – Section 52(d) of the MFMA stipulates that the mayor must, within 30 days after the end of each quarter, submit a report to Council on the Implementation of the Budget and the Financial State of Affairs of the municipality.

Mid-year Assessment of the Budget – Section 72 of the MFMA states that the accounting officer must, by the 25th January of each year assess the performance of the municipality during the first half of the financial year taking the monthly financial results, the SDBIP results, the past year's annual report and the performance of the municipal entities.

Adjustments Budget - Section 72 of the MFMA further states that the accounting officer must, as part of the Mid-Year Assessment of the budget, make recommendations as to whether an adjustments budget is necessary and recommend revised projections for revenue and expenditure to the extent that this may be necessary.

Visually, the process can be summarized as follows:



Only one main adjustments budget may be considered by Council resulting from the mid-year review, but there are a number of exceptions where adjustments budgets can be dealt with:

- If a national or provincial adjustments budget allocates additional revenue to a municipality;
- When unforeseeable and unavoidable expenditure is incurred and approved by the mayor;
- Approval of roll-overs (to be approved before the 25th August annually); and
- Approval of un-authorised expenditure when the mayor tables the annual report.

The annual mid-year review will be performed during January of each year. The main adjustments budget will be commenced with during January, but Council will have the prerogative to deal with the adjustments budget either during January or at the latest February annually.

The adjustments budget will be considered by the Budget Steering Committee prior to it being finally approved by Council.

The Finance Department will facilitate the requests for shifting of funds between votes. All needs identified between July and December annually must be communicated to the Finance department for the preparation of a consolidated report.

Additional allocations to departments will only be considered if actual revenue has significantly exceeded budgeted revenue for the first six months of the year and it is realistically anticipated that the trend will continue for the second half of the year **or** if new revenue not budgeted for has been received **or** if additional national or provincial adjustments budget allocations were made to the municipality.

If any budget amendments result in a change in the SDBIP outcomes, departments will be allowed to submit revised SDBIP's to Council for consideration. A reduction in SDBIP targets as a result of sub-standard performance will not be considered as part of the adjustments budget process.

The adjustments budget must follow the process and be in the format as prescribed by Part 4 of the MFMA Budget and Reporting Regulations.

Once the adjustments have been approved by Council, the Venus financial system will be updated where-after departments will be allowed to process financial transactions.

Adjustments budgets other than the main adjustments budget resulting from the mid-year review will be considered as follows:

Approval of roll-overs (to be approved before the 25th August annually)

Projects funded from Provincial or National Government Grants, or other externally funded sources where projects were scheduled for completion by 30 June annually, but, due to unforeseen delays are not completed by 30 June and no provision for completion of the projects were made in the annual budget, will be considered for roll-overs.

For projects to be considered, the following conditions must be met:

Externally Funded Projects

- Funding must have been received, or a legally binding written commitment for funding to be transferred must have been received;
- National and/or Provincial government must have approved the rollover of the funding in terms of the conditions of the Division of Revenue Act (i.e. no surrendering of funds applicable); and
- Projects must have been committed and/or commenced with.

Internally Funded Projects

- In cases where under spending on a specific project is known before Council will be considering the budget for the next financial year, the amount of the under spending on the project be provided as a roll-over (additional funding) on the budget of the next financial year, provided the following conditions are met:
 - The under spending remains a saving in the first financial year upon conclusion of the annual financial statements;
 - The project is funded from external loans; and
 - The external loans of the next financial year are not reduced and the total loans as per the MTEF are taken up.

- In cases where the under spending on a specific project was not known at the time when the budget for the next financial year was considered by Council, the under spending be approved as a roll over (additional funding) and be approved by Council before the 25th of August of the following financial year, provided the following conditions are met:
 - The under spending remains a saving in the first financial year upon conclusion of the annual financial statements;
 - The project is funded from external loans; and
 - The external loans of the next financial year are not reduced and the total loans as per the MTEF are taken up.
- That in both cases mentioned above, the department will have to submit prove to the satisfaction of the Enterprise Programme Management Section that a realistic project plan and cash flow forecast was in place at the start of the financial year and that the under spending was caused by unforeseen circumstances that emerged after the conclusion of the budget.

The chief financial officer will, annually during July, allow departments the opportunity to submit requests for budget adjustments where the above conditions are met.

An adjustments budget will be submitted to Council for consideration at the August council meeting.

The adjustments budget must follow the process and be in the format as prescribed by Part 4 of the MFMA Budget and Reporting Regulations.

Once the adjustments have been approved by Council, the Venus financial system will be updated where-after departments will be allowed to process financial transactions.

If a national or provincial adjustments budget allocates additional revenue to a municipality

Additional allocations made to the municipality resulting from a National or Provincial adjustments budget will be dealt with in an adjustments budget.

For an adjustments budget to be considered, the following conditions must be met:

- Funding must have been received, or gazetted in an amended Division of Revenue Act.
- Projects must be able to be completed by the end of the financial year, or funding must be available for use after the financial year in terms of the conditions of the Division of Revenue Act.

The chief financial officer will annually, after the Provincial or National adjustments budgets are announced, allow departments the opportunity to submit requests for budget adjustments where the above conditions are met.

An adjustments budget will be submitted to Council for consideration at the next council meeting.

The adjustments budget must follow the process and be in the format as prescribed by Part 4 of the MFMA Budget and Reporting Regulations.

Once the adjustments have been approved by Council, the Venus financial system will be updated where-after departments will be allowed to process financial transactions.

9. UNFORESEEABLE AND UNAVOIDABLE EXPENDITURE IS INCURRED AND APPROVED BY THE MAYOR

The MFMA Budget and Reporting Regulations prescribe the process to be followed for the approval of unforeseeable and unavoidable expenditure.

Unforeseen and unavoidable expenditure are expenditure that:

- Could not have been foreseen at the time the annual budget of the municipality was passed;
- The delay that will be caused by a pending adjustments budget may:
 - Result in significant financial loss for the municipality;
 - Cause a disruption or suspension or serious threat to the continuation of municipal services;
 - Lead to loss of life or serious injury or significant damage to property; and
 - Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

No unavoidable expenditure exceeding R15 million may be approved during a financial year.

Any department becoming aware of the need to incur unforeseen or unavoidable expenditure must immediately approach the Chief Financial Officer with the full details on the unforeseen expenditure, providing information on the consequences of not incurring the expenditure as well as an indication of the expected cost (both for the current year as well as any recurring cost resulting from the event). A confirmation that the expenditure does not constitute expenditure that may not be allowed by the Executive Mayor as per section 73(2) of the MFMA Budget and Reporting Regulations must be given by the department when approaching the CFO.

The CFO will determine whether the cost cannot be dealt with through a process of shifting of funds within the relevant votes. If sufficient funds are available for shifting within the vote, the shifting of funds process will be followed. If not, the matter will be reported to the city manager for consideration as unforeseen and unavoidable expenditure.

Once the city manager has granted approval, the relevant head of department will be authorised to submit a report to the executive mayor requesting approval. If approval is granted, the Venus financial system will be adjusted to allow the department to process the financial transaction.

The abovementioned process will be dealt with as highest priority to ensure that administrative delays do not exacerbate the situation.

An adjustments budget will be submitted to the next Council meeting. The preferred process would be to shift funds between votes to avoid any negative impact on the total cash position of council.

10. APPROVAL OF UN-AUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE WHEN THE MAYOR TABLES THE ANNUAL REPORT

The MFMA defines unauthorised, irregular or fruitless and wasteful expenditure as follows:

“unauthorised expenditure”, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes—

- (a) overspending of the total amount appropriated in the municipality’s approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of “allocation” otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act;

“irregular expenditure”, in relation to a municipality or municipal entity, means-

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;

(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No 20 of 1998); or

(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”;

“fruitless and wasteful expenditure” means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

Any unauthorised, irregular or fruitless and wasteful expenditure as defined above must be disclosed in the Annual Financial Statements by the Chief Financial Officer.

The Accounting Officer will investigate all cases of unauthorised, irregular or fruitless and wasteful expenditure as disclosed in the Annual Financial Statements and report his findings to the Municipal Public Accounts Committee (MPAC). MPAC must consider the report of the Accounting Officer. The following requirements for recovering of cost must be considered:

Section 32 of the MFMA:

- 32(1)** *Without limiting liability in terms of the common law or other legislation—*
- (a) a political office-bearer of a municipality is liable for unauthorised expenditure if that office-bearer knowingly or after having been advised by the accounting officer of the municipality that the expenditure is likely to result in unauthorised expenditure, instructed an official of the municipality to incur the expenditure;*
 - (b) the accounting officer is liable for unauthorised expenditure deliberately or negligently incurred by the accounting officer, subject to subsection (3);*
 - (c) any political office-bearer or official of a municipality who deliberately or negligently committed, made or authorised an irregular expenditure, is liable for that expenditure; or*
 - (d) any political office-bearer or official of a municipality who deliberately or negligently made or authorised a fruitless and wasteful expenditure is liable for that expenditure.*
- (2)** *A municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—*
- (a) in the case of unauthorised expenditure, is—*
 - (i) authorised in an adjustments budget; or*
 - (ii) certified by the municipal council, after investigation by a council committee, as irrecoverable and written off by the council; and*
 - (b) in the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.*
- (3)** *If the accounting officer becomes aware that the council, the mayor or the executive committee of the municipality, as the case may be, has taken a decision which, if implemented, is likely to result in unauthorised, irregular or fruitless and wasteful expenditure, the accounting officer is not liable for any ensuing unauthorised, irregular or fruitless and wasteful expenditure provided that the accounting officer has informed the council, the mayor or the executive committee, in writing, that the expenditure is likely to be unauthorised, irregular or fruitless and wasteful expenditure.”*

The Municipal Public Accounts Committee will submit a report to Council where after the unauthorised, irregular or fruitless and wasteful expenditure will be considered for approval, recovery of cost, write-off with or without disciplinary and/or criminal proceedings.

The accounting officer must ensure compliance with the MFMA reporting requirements in respect of unauthorised, irregular or fruitless and wasteful expenditure, including criminal proceedings where applicable.

11. MONITORING AND REPORTING

- 11.1 As from 01 July 2009 internal and external reporting will be done in accordance with the prescribed formats in the MBRR.
- 11.2 When MEs submit their budget statements to the City Manager, they must also submit a copy of the statement no later than seven working days after the end of the month to-
 - (a) the chairperson of the Board of Directors
 - (b) other municipalities affected by the entity's annual budget
 - (c) any other organ of state, on request
- 11.3 Tabling in Council of the mid- year budget and performance assessment

report of the City must include mid- year budget and performance assessment reports of all MEs.

- 11.4 In terms of regulation 5 of the MBRR, whenever an annual budget and its Supporting documentation, an adjustment budget and its supporting documentation or an in-year report of the City is submitted to the Mayor, Council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule A, B or C, as the case may be, and signed by the City Manager.
- 11.5 Regulation 36 of the MBRR requires that, whenever an annual budget and supporting documentation, an adjustment budget and supporting documentation, or directors or parent municipality, tabled in the Council, made public or submitted to another organ of state, it must be accompanied by a quality certificate complying with Schedule D, E or F, as the case be, signed by the CEO.

12. NON- COMPLIANCE

- 12.1 Regulations 60- 70 of the MBRR prescribes matters dealing with non- compliance by municipalities and MEs with time lines and deadlines concerning annual budgets, adjustments budget and in- year reports.
- 12.2 In an event that the Metro or a ME fails to comply with the timelines and Deadlines concerning annual budgets, adjustments budget or in- year reports, an application must be lodged in the format prescribed by the regulations.

13. COORDINATION AND CONSOLIDATION

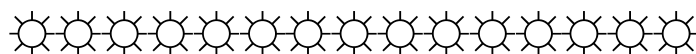
- 13.1 Budget Office will coordinate and consolidate all submissions by departments and MEs to Council, on budgets and related issues covered in this Policy.
- 13.2 Budget Office will from time to time issue out formats and guidelines to all departments and MEs on budgets and related matters covered in this Policy.

14. IMPLEMENTATION AND REVIEW

- 14.1 This Policy shall be implemented once approved by Council.
- 14.2 In terms of section 17(3) (e) of the MFMA, this Policy must be reviewed on an Annual basis and any proposed arguments or amendments tabled to Council for consideration and approval.

15. OTHER RELEVANT DOCUMENTS

- 15.1 This Policy must be read in conjunction with any applicable delegation of powers to the MMC: Finance, ICT and Economic Development, and the CFO relating to the management of the budget of the City.



IDP and BUDGET

2018/19 - 2020/21



Annexure D11

MUNICIPAL ENTITY FINANCIAL SUPPORT POLICY

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MUNICIPAL ENTITIES FINANCIAL SUPPORT POLICY

1. APPLICATION AND SCOPE

The Borrowing Policy is applicable to the City of Ekurhuleni as well as to all of the municipal entities of the City, being:

- Brakpan Bus Company SOC Ltd (**BBC**)
- East Rand Water Care Company NPC (**ERWAT**); and
- Ekurhuleni Housing Company SOC Ltd (**EHC**), including Pharoe Park SOC Ltd and Germiston Phase Two SOC Ltd.

The policy ***as amended*** will be effective as from 1 July 2018.

2. OBJECTIVES OF POLICY

To regulate the financial support provided by the City of Ekurhuleni to its Municipal Entities to ensure optimum use is made of financial support.

Specific objectives:

- To regulate the financial support given to municipal entities;
- To ensure compliance with the Municipal Finance Management Act; and
- To provide for roll over of grants provided to entities if unspent at the end of the financial year.

3. INTRODUCTION

Regular requests are received for financial and other support from the municipal entities. It is not a sound principle to evaluate requests for financial support on an ad hoc basis only, but it is preferable to have a framework within which requests will be considered.

Options include, but are not limited to:

- Bulk contributions received from developers used to fund additional capacity requirements.
- Negotiation of consolidated borrowings for City of Ekurhuleni and entities at more beneficial rates than what entities can obtain loan funding.
- Direct transfers to subsidize operating expenditure of municipal entities.
- Nominal lease agreements for use of City of Ekurhuleni assets.
- Entities that are not financially viable be incorporated into City of Ekurhuleni administration.

4. LEGISLATIVE FRAMEWORK

Chapter 10 of the MFMA provides the legislative framework for municipal entities.

The following sections of the Municipal Finance Management Act (MFMA) are specifically quoted to emphasise the nature of the relationship between the City of Ekurhuleni and the Municipal Entities:

Section 87 - Budgets

- (1) The board of directors of a municipal entity must for each financial year submit a proposed budget for the entity to its parent municipality not later than 150 days before the start of the entity's financial year or earlier if requested by the parent municipality.*
- (4) The board of directors of a municipal entity must approve the budget of the municipal entity not later than 30 days before the start of the financial year, taking into account any hearings or recommendations of the council of the parent municipality.*
- (5) The budget of a municipal entity must-*
 - (a) be balanced;*
 - (c) be within any limits determined by the entity's parent municipality, including any limits on tariffs, revenue, expenditure and borrowing;*
 - (d) include a multi-year business plan for the entity that-*
 - (iv) reflect actual and potential liabilities and commitments, including particulars of any proposed borrowing of money during the period to which the plan relates; and*
- (6) Any projected allocation to a municipal entity from its parent municipality must be provided for in the annual budget of the parent municipality, and to the extent not so provided, the entity's budget must be adjusted.*

Section 89 - Remuneration packages

The parent municipality of a municipal entity must—

- (a) determine the upper limits of the salary, allowances and other benefits of the chief executive officer and senior managers of the entity; and*
- (b) monitor and ensure that the municipal entity reports to the council on all expenditure incurred by that municipal entity on directors and staff remuneration matters, and in a manner that discloses such expenditure per type of expenditure namely:*

Section 90 - Disposal of capital assets

- (1) A municipal entity may not transfer ownership as a result of a sale or other transaction or otherwise dispose of a capital asset needed to provide the minimum level of basic municipal services.*

- (2) *A municipal entity may transfer ownership or otherwise dispose of a capital asset other than an asset contemplated in subsection (1), but only after the council of its parent municipality, in a meeting open to the public—*
 - (a) *has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and*
 - (b) *has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.*
- (3) *A decision by a municipal council that a specific capital asset is not needed to provide the minimum level of basic municipal services may not be reversed by the municipality or municipal entity after that asset has been sold, transferred or otherwise disposed of.*
- (4) *A municipal council may delegate to the accounting officer of a municipal entity its power to make the determinations referred to in subsection (2) (a) and (b) in respect of movable capital assets of the entity below a value determined by the council.*
- (5) *Any transfer of ownership of a capital asset in terms of subsection (2) or (4) must be fair, equitable, transparent and competitive and consistent with the supply chain management policy which the municipal entity must have and maintain in terms of section 111.*
- (6) *This section does not apply to the transfer of a capital asset to a municipality or another municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury provided that such transfers are in accordance with a prescribed framework.*

Section 94 - Fiduciary duties of accounting officers

- (1) *The accounting officer of a municipal entity must-*
 - (a) *exercise utmost care to ensure reasonable protection of the assets and records of the entity;*
 - (b) *seek, within the sphere of influence of that accounting officer, to prevent any prejudice to the financial interests of the parent municipality or the municipal entity.*

Section 101 - Impending under collection, shortfalls, overspending, overdrafts, and non-payment

- (1) *The accounting officer of a municipal entity must report, in writing, to the board of directors of the entity, at its next meeting, and to the accounting officer of the entity's parent municipality any financial problems of the entity, including-*
 - (b) *any steps taken to rectify such financial problems.*

Section 108 - Borrowing of money

- (1) *A municipal entity may borrow money, but only in accordance with-*
 - (a) *the entity's multi-year business plan referred to in section 87(5) (d); and*
 - (b) *the provisions of Chapter 6 to the extent that those provisions can be applied by a municipal entity.*

Section 109 - Financial problems in municipal entities

If a municipal entity experiences serious or persistent financial problems and the board of directors of the entity fails to act effectively, the parent municipality must either-

- (a) take appropriate steps in terms of its rights and powers over that entity, including its rights and powers in terms of any relevant service delivery or other agreement;*
- (b) impose a financial recovery plan, which must meet the same criteria set out in section 142 for a municipal financial recovery plan; or*
- (c) liquidate and disestablish the entity.*

5. FINANCIAL SUPPORT

The following support will be provided to the Municipal Entities in line with the provisions of the MFMA:

Brakpan Bus Company SOC Ltd (BBC)

- Use of council-owned buses as per the conditions contained in the Lease Agreement. The further recapitalisation of the bus fleet will be subject to the availability of funds in the capital budget of the City of Ekurhuleni.
- Use of council owned facilities as per the conditions contained in the Lease Agreement.
- Administrative support in relation to financial management (on request) at no cost to the BBC with the express provision that the accountability remains with the accounting officer of the entity.
- Direct financial support to be considered on a year-to-year basis by Council, subject to availability of finance and/or budget provision at the City of Ekurhuleni
- Guarantee of borrowings of entity subject to financial viability of proposed borrowings.
- Any other support will be provided in terms of the service level agreement, but subject to the availability of resources in the City of Ekurhuleni

Ekurhuleni Housing Company SOC Ltd (EHC)

- Administrative support in relation to financial management (on request) at no cost to the EHC with the express provision that the accountability remains with the accounting officer of the entity.
- Direct financial support to be considered on a year-to-year basis by Council, subject to availability of finance and/or budget provision at the City of Ekurhuleni.
- Guarantee of borrowings of entity subject to financial viability of proposed borrowings.
- Any other support will be provided in terms of the service level agreement, but subject to the availability of resources in the City of Ekurhuleni.

East Rand Water Care Company NPC (ERWAT)

- ERWAT, as service provider to the City of Ekurhuleni, should set cost reflective tariffs which must include both operational and capital cost related to the rendering of the service. To this end, the City of Ekurhuleni commits to approve cost reflective tariffs in the MTREF period.
- USDG grants will be made available from the City of Ekurhuleni USDG allocation to ensure that bulk sewer infrastructure is available to service the City of Ekurhuleni community.

- Bulk contributions received from developers used to fund additional capacity requirements.
- Guarantee of borrowings of entity subject to financial viability of proposed borrowings.
- Direct financial support to be considered on a year-to-year basis by Council, subject to availability of finance and/or budget provision at the City of Ekurhuleni.
- Any other support will be provided in terms of the service level agreement, but subject to the availability of resources in the City of Ekurhuleni.

Negotiation of consolidated loans for City of Ekurhuleni and entities at more beneficial rates than what entities can obtain loan funding. Any loans in this regard will be subject to Council approval.

Direct loan funding from the City of Ekurhuleni to the entities are not disallowed by the MFMA, but it is deemed to be impractical and is not recommended for the current medium term period.

Actual expenditure incurred against grants received by municipal entities must be reported to the parent municipality on a quarterly basis. The entity must apply for the roll-over of the unspent portion at the end of the financial year. The City of Ekurhuleni Council will consider the merit of the roll over request and approve if sufficient prove of commitments against the grant can be provided. If the grant has not been committed at the end of the financial year, the amount will be surrendered back to the parent municipality.

6. MONITORING OF PERFORMANCE

Performance of municipal entities as required by Section 87 of the Municipal Systems Act will be managed as follows:

- Municipal entities to submit three years annual and one-year quarterly performance targets to the City of Ekurhuleni as part of the annual budgeting process.
- These targets must be included in both the business plans and SDBIPs of the municipal entities.
- These targets will annually be approved by the City of Ekurhuleni as part of the budget process. These targets will constitute the performance level agreement between the City of Ekurhuleni and the entities for the year.
- Quarterly reports providing actual performance against the targets must be submitted to the City of Ekurhuleni Council.
- Actual performance for the year will be included in the consolidated City of Ekurhuleni annual report.

7. SERVICE LEVEL AGREEMENTS

Service level agreements shall be entered into between the City of Ekurhuleni and the municipal entities in line with good governance principles.

8. DIVIDEND PREFERENCE

The municipal entities of the City of Ekurhuleni are not for profit organisations and no dividends are declared. The City of Ekurhuleni contributes financially to the entities and any surpluses generated by the entities should be retained by the entity to reduce future year financial dependency on the Metro.

9. APPLICABLE TO ENTITIES

9.1. Recapitalisation of the entity:

- 9.1.1. A request for capitalisation must be in writing and endorsed by the Board of entity.
- 9.1.2. The board must obtain approval from Council.

9.2. Guarantee of Borrowings:

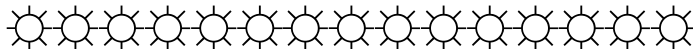
- 9.2.1. A proposal to apply for a loan must be in writing.
- 9.2.2. An entity must indicate the purpose of the loan.
- 9.2.3. Loan threshold levels and approval process shall be applied as follows:
 - R50 000 000 and below must be approved by the Board of entity
 - R50 000 001 –R250 000 000 must be approved by Group Chief Financial Officer
 - R250 000 001- R500 000 000 must be approved by the Shareholder representative (Member of Mayoral Committee (MMC))
 - R500 000 001 and above must be approved by Council

9.3. Shared Services

- 9.3.1. Cost for provision of non-financial services from departments such as risk management and internal audit will not be incurred by the entity.
- 9.3.2. Cost for provision of services provided by the City of Ekurhuleni that require maintenance such as fleet must be incurred by entity.

10. CONCLUSION

Municipal entities have been established to further the service delivery aims of the City of Ekurhuleni. The relationship between the City of Ekurhuleni and the entities should therefore positively contribute towards the joint service delivery aim.



IDP and BUDGET

2018/19 - 2020/21



Annexure D12

ACCOUNTING POLICY

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1. PRESENTATION OF GROUP ANNUAL FINANCIAL STATEMENTS

Basis of preparation

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principle accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the note "Changes in accounting policy".

1.1 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

- **Operating lease commitments – entity as lessor or lessee**

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received or paid under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

- **Pension and other post – employment benefits**

The cost of defined-benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

- **Impairment of receivables**

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments. This was performed on an individual basis as well as per service-identifiable categories across all debtor classes.

- **Impairment of property, plant and equipment**

The calculation in respect of the impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed across all classes of property, plant and equipment.

- **Provisions, contingent liabilities and contingent assets**

Management's judgement is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material, using cost of capital.

- **Useful lives of property, plant and equipment and Investment property held at cost**

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. The estimated residual values of assets are also based on management's judgement on whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

- **Traffic Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

- **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period.

- **Budget information**

A difference of 5% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise.

1.2 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.3 CONSOLIDATION

Basis of consolidation

Consolidated group annual financial statements are the group annual financial statements of the economic entity presented as those of a single entity.

The consolidated group annual financial statements incorporate the group annual financial statements of the controlling entity and all controlled entity, which are controlled by the controlling entity.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities, are included in the consolidated group annual financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognised in net assets in accordance with the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates, is recognised in the consolidated statement of financial performance as the surplus or deficit on the disposal of the controlled entity.

An investment in an entity is accounted for in accordance with the accounting policy on Financial Instruments from the date that it ceases to be a controlled entity, unless it becomes an associate or a jointly controlled entity, in which case it is accounted for as such. The carrying amount of the investment at the date that the entity ceases to be a controlled entity is regarded as the fair value on initial recognition of a financial asset in accordance with the accounting policy on Financial Instruments.

The group annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated group annual financial statements are prepared as of the same reporting date.

Adjustments are made when necessary to the group annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Non-controlling interests in the net assets of the entity are identified and recognised separately from the controlling entity's interest therein, and are recognised within net assets. Losses applicable to the minority in a consolidated controlled entity may exceed the non-controlling interest in the controlled entity's net assets. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make an additional investment to cover the losses. If the controlled entity subsequently reports surpluses, such surpluses are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Non-controlling interests in the surplus or deficit of the entity is separately disclosed.

1.4 INVESTMENT PROPERTY

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

At initial recognition, the entity measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the

investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Cost model

Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Depreciation is provided to write down the cost by equal instalments over the useful life of the property, which is as follows:

| Item | Useful life |
|----------------------|--------------------|
| Property - land | indefinite |
| Property - buildings | 50 - 60 years |

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.5 PROPERTY, PLANT AND EQUIPMENT (PPE)

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity and
- the cost or the fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Servitudes that are acquired with the relevant infrastructure items are capitalised with the relating infrastructure asset when it is an integral part of the asset.

Work in progress represents capital expenditure incurred on projects/assets under construction not yet completed nor ready for use at period end.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

The entity maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

The entity depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets. Depreciation starts when the asset is available for use. Work in progress is not depreciated.

The depreciation rates are based on the following estimated useful lives:

| Item | Average useful life |
|-------------|----------------------------|
| Land | Indefinite |

Infrastructure

| | |
|----------------------------------|---------------|
| • Roads and storm water | 2 - 100 years |
| • Pedestrian malls | 10 - 60 years |
| • Electricity | 3 - 100 years |
| • Water | 3 - 100 years |
| • Sewer | 3 - 100 years |
| • Housing | 80 years |
| • Solid Waste | 5 - 100 years |
| • Servitudes | Indefinite |
| • ICT | 5 - 50 years |
| • Waste Water Purification Works | 4 - 82 years |

Community

| | |
|---------------------------|---------------|
| • Buildings | 14 - 80 years |
| • Recreational facilities | 10 - 80 years |
| • Security | 5 - 15 years |
| • Landfill sites | 10 - 80 years |

Other property, plant and equipment

| | |
|--------------------------|--------------|
| • Furniture and fittings | 3 - 33 years |
|--------------------------|--------------|

| | |
|--------------------------------------|---------------|
| • Water craft | 15 years |
| • Office equipment | 3 - 35 years |
| • Specialised plant and equipment | 10 - 26 years |
| • Other items of plant and equipment | 2 - 29 years |
| • Buildings | 20 - 80 years |
| • Specialised vehicles | 3 - 20 years |
| • Other vehicles | 3 - 28 years |

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

At each reporting date all items of PPE are reviewed for any indication that it may be impaired. An impairment exists when an assets carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the assets' recoverable amount is calculated. An impairment loss is recognised in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 INTANGIBLE ASSETS

An asset is identified as an intangible asset when it is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the entity or from other rights and obligations.

An intangible asset is recognised when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are subsequently measured at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these

intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Average Useful life |
|-------------------|----------------------------|
| Computer software | 2 - 23 years |

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

1.7 HERITAGE ASSETS

A heritage asset is as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held indefinitely for the benefit of present and future generations.

The entity recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and the cost or fair value of the asset can be measured reliably.

Heritage assets are measured at cost. Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition. The cost of a purchased heritage asset comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management

Heritage assets are subsequently measured at cost, less accumulated impairment losses. Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

Transfers to heritage assets are made only when the asset meets the definition of a heritage asset and transfers from heritage assets are made only when the asset no longer meets the definition of a heritage asset. Transfers to and from heritage assets are done at the carrying amount of the assets transferred at the date of transfer.

The entity assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity estimates the recoverable amount or the recoverable service amount of the heritage asset.

Most heritage assets have an indefinite useful life as they are to be preserved for current and future generations and might appreciate in value over time due to their cultural, environmental, historical, natural, scientific, technological and/or artistic significance. Based on this analysis, there is no finite limit to the period over which a heritage asset is expected to be held by the entity. The useful life of the heritage asset is therefore likely to be indefinite or the annual depreciation is likely to be immaterial.

The entity derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised.

1.8 INVESTMENTS IN CONTROLLED ENTITIES

Municipal controlled entities are those entities which the Entity owns or over whose financial and operating policies it has the power to exercise beneficial control.

In the entity's separate annual financial statements, investments in controlled entities are carried at cost less any accumulated impairment.

1.9 FINANCIAL INSTRUMENTS

a) Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- (i) the entity designates at fair value at initial recognition or
- (ii) are held for trading.

b) Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

c) Financial instruments at fair value comprise financial assets or financial liabilities that are:

- (i) derivatives;
- (ii) combined instruments that are designated at fair value;
- (iii) instruments held for trading. A financial instrument is held for trading if:
 - (1) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - (2) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- (iv) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- (v) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|--|--|
| Other Investments | Financial asset measured at amortised cost |
| Other receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions (taxes & transfers) | Financial asset measured at amortised cost |
| Consumer debtors | Financial asset measured at amortised cost |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Long-term receivables | Financial asset measured at amortised cost |
| Other Investments (unlisted shares) | Financial asset measured at cost |
| Other investments | Financial asset measured at fair value |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|--|
| Long-term liabilities | Financial liability measured at amortised cost |
| Trade and other payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised |
| Finance lease obligation | Financial liability measured at amortised |

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-Exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or of financial assets is impaired.

a) Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

b) Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition**a) Financial assets**

The entity derecognises financial assets (or part of a financial assets) when the contractual rights to the cash flows from the financial asset expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

b) Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-Exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 INVENTORIES

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business.

Inventories shall be recognised as an asset if, and only if,

- it is probable that future economic benefits or service potential associated with the item will flow to the entity; and
- the cost of the inventories can be measured reliably.

Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the Inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost.

Unsold properties, distributed through a non-exchange transaction, are valued at lower of cost or the net replacement cost. Direct costs are accumulated for each separately identifiable development.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The first-in-first-out method is the basis of allocating costs to inventories, except for water balance which is determined at weighted average cost based on the water volume in the network on hand.

Redundant and slow-moving inventories are identified and written down in this way. Inventories identified for write down/write off, but for which a council resolution, to authorise the write down/write off, has not yet been obtained, is provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Retirement funds

The entity contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation, reduced by the fair value of plan assets (if any).

Any asset is limited to the present value of available refunds and reduction in future contributions to the plan.

The entity does not apply "defined benefit accounting" to the defined benefit funds to which it is a member, where these funds are classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved.

To the extent that a surplus or deficit in the plan, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the entity will increase Contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

Medical Aid: Continued Members

The entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the entity is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the entity for the remaining portion.

1.12 PROVISIONS AND CONTINGENCIES

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

a) Leave provision

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end, any unused leave days are forfeited six months after the end of leave cycle.

b) COLD provision

The provision for COLD pensions and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 7.36% (2017: 7.36%) per annum over member's expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate of 10.46% (2017: 10.46%).

c) Landfill rehabilitation provision

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital (time value of money), which is currently 10.46% (2017: 10.46%).

The entity has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which an entity incurs as a consequence of having used the property during a particular period for landfill purposes. The entity estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

Changes in the measurement of the provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

- a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- c) if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

d) Workmen's compensation provision

The provision is for the unpaid periods, estimated in the latest return submitted to the compensation commissioner.

e) Long service awards provision

The entity offers various types of long service awards to its employees. The provision is to recognise the present value of the obligation as at the reporting date.

f) GMRF provision

The provision is for the entity's obligation to the Germiston Municipal Retirement Fund due to the entity failing to meet its obligation to contribute to the fund due to the required investment yield not being achieved.

g) Bonus provision

The provision is to provide for performance bonuses of the entity's section 57 employees and, independent contractors, where applicable.

1.13 IMPAIRMENT OF CASH-GENERATING ASSETS AND NON-CASH-GENERATING ASSETS

Cash-generating assets are those assets managed by the entity with the objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return. Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount or when the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount or the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

When estimating the value in use of a cash-generating asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows. The present value of the remaining service potential of a non-cash-generating assets is determined using the most appropriate between the following approaches:

- Depreciated replacement cost approach;
- Restoration cost approach;
- Service units' approach

Recognition and measurement

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount or recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount or recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

Service charges relating to electricity and water are based on consumption. Meters are read on a periodic basis and revenue is recognised when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period. There are areas within the entity where an unmetered water tariff is applied based on estimated consumption as per promulgated tariffs. Revenue for these is recognised when invoiced.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property size, and are levied monthly.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Income earned on agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Dividends are recognised when the entity's right to receive payment is established.

Revenue from the sale of goods is recognised when the following conditions have been satisfied:

- The entity has transferred to the buyer the significant risks and rewards of ownership.
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.15 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity. When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes (Property rates)

The entity recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. Resources arising from taxes satisfy the definition of an asset when the entity controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The entity analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis. Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers, including Grants and Receipts

The entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the entity.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the entity recognises services in-kind that are significant to its operations and/or service delivery objective as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the entity's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity disclose the nature and type of services in-kind received during the reporting period.

1.16 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - Lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases – lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.17 BORROWING COSTS

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

Change in accounting policy due to amendments to GRAP 5 – Borrowing costs

The adoption of amendments to GRAP 5 – Borrowing costs resulted in a change in accounting policy during the current period. The effect of the change is that borrowing costs are now expensed when incurred, and this change is applied prospectively since 2014/07/01. The effective date of the amendments was 2014/07/01.

Borrowing costs, incurred both before and after the effective date of this amendment, and related to qualifying assets for which the commencement date for capitalisation is prior to the effective date of this standard, is recognised in accordance with the entity's previous accounting policy.

1.18 VALUE ADDED TAX

The Entity accounts for value-added tax (VAT) on the payment basis.

1.19 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 INTERNAL RESERVES

Included in the accumulated surplus are internal reserves, no separate line items are presented, in accordance with the GRAP reporting framework, but provision is made in the budget process for funding of these reserve. The amounts set aside for these reserves are invested in accordance with the investment policy of the entity. The following internal reserves are maintained:

Capital replacement reserve (CRR)

The reserve is created for the replacement of service delivery assets when they reach the end of their economic lives to ensure continue of provision of such services, and to minimise the impact of raising external funding or over reliance on grant funds.

Self-insurance Reserve

A Self Insurance Reserve was established for a self-insurance purpose and to minimize the external insurance costs. The reserve is based on recognised insurance industry principles to complement the external cover provided by insurance companies.

Sinking Funds Reserve

The reserve is created for the provision of repayments of long-term borrowing raised to funds capital projects, and to meet repayment conditions on such borrowings.

1.23 BUDGET INFORMATION

The approved budget is prepared in accordance with GRAP standards on an accrual basis, and are consistent with accounting policies as adopted by the Council for the preparation of this financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.24 RELATED PARTIES

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

1.25 EVENTS AFTER REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date.

1.26 COMMITMENTS

The entity discloses each class of capital assets (PPE, Investment properties, Intangible assets and Heritage assets) recognised in the financial statements as well as future minimum lease payments under non-cancellable operating leases for each of the following periods:

- Not later than one year,
- Later than one year and not later than five years, and
- Later than five years.

1.27 GOING CONCERN

These annual financial statements have been prepared on a going concern basis.

1.28 COMPARATIVE FIGURES

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are reclassified. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.29 TAX

Controlling entity

The Entity is exempt from tax in terms of section 10(1)(c)B(i)(ff) of the Income Tax Act.

Entity

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

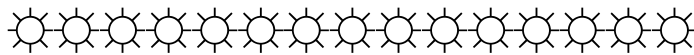
1.30 SHARE PREMIUM

An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its liabilities.

1.31 RESEARCH AND DEVELOPMENT EXPENDITURE

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the entity can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.



IDP and BUDGET

2018/19 - 2020/21



Annexure D13

ELECTRICITY METERING FOR RESIDENTIAL AND BUSINESS CUSTOMERS POLICY

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ELECTRICITY METERING FOR RESIDENTIAL AND SMALL BUSINESS CUSTOMERS POLICY

1. BACKGROUND

The City of Ekurhuleni, since 2003, created a practical residential metering policy covering all aspects related to the future planning, design and installation of residential and business metering systems. The term “systems” encompasses all forms of residential and business metering, whether it is a Ferraris-type credit meter, a prepayment meter, a smart meter as found in Tembisa, AMR demand meter or a future smart meter.

The document has the following section headings:

- ▶ Definitions;
- ▶ Smart metering (future);
- ▶ Protection of metering;
- ▶ Metering in existing areas;
- ▶ Metering in new areas;
- ▶ Credit control measures; and
- ▶ Stakeholder engagement.

The strategy is designed to manage current use of existing metering processes and equipment as far as is practically possible and to improve the security of metering in a cost effective manner.

In all cases, reasonable efforts will be made to restore metering integrity through the use of:

- ▶ by-laws, and policy, supported by special operations in the application of these;
- ▶ meter audits, guided by non-purchasing patterns or suspect consumption profiles (regular meter audits are essential in order to maintain the integrity of the installed meter base), and
- ▶ the application of reinstatement fees, as contained in the schedule of tariffs.

Further (possibly anticipated) violation of metering equipment must lead to placing the split metering element of a prepayment meter inside a medium or heavily constructed meter box/structure on the sidewalk (or pole top) and to include remote tamper monitoring devices.

All new reticulation must be designed:

- ▶ using strengthened meter boxes with no visible hinges or locking arrangements on the outside. These meter boxes are to be secured by methods other than the usual lock and key arrangement (possibly using electronic remote devices, or mechanical locking devices).

For electricity safety reasons only one connection will be permitted to a stand, unless otherwise authorized by the Head of Department: Energy, for individually motivated cases.

All meters must be sealed, using numbered and colour coded seals as per standard specifications and Council's Meter Seal Policy. This will allow authorised personnel to establish at a glance whether the meter's integrity has been breached.

2. DEFINITIONS

kWh – Kilowatt-hour 1 kWh = 1 Unit of Electricity consumed

AMR Automated Meter Reading (metering method which is mainly associated with demand meters and requires a modem to upload the metering data automatically to a central database for billing purposes)

EWASA e-Waste Association of South Africa

| | | |
|---|---|--|
| “Lightly constructed strengthened meter box” | : | Electrical kiosk, constructed from a suitable material that will be able to withstand attempted break-ins, with hidden hinges and opening mechanisms, also adapted for pole top use. |
| “Medium constructed strengthened meter box” | : | Electrical kiosk, constructed from a suitable material that will be able to withstand relatively serious attempted break-in's, with hidden hinges and opening mechanisms, also adapted for pole top use. |
| “Heavily constructed protective structure” | : | Heavy steel and/or concrete structure serving as an electrical kiosk. |

The above table excludes all use of unprotected padlocks in future developments. All new designs are to cater for better protected meter boxes and this will only be possible by using more advanced opening mechanisms.

3. ADVANCED METERING INFRASTRUCTURE (AMI) – NRS 049 (FUTURE “SMART METERING”)

It is expected that the introduction of targeted smart metering, will allow better management of various problems related to inaccessible meters, errors due to manual meter reading, creation of an accurate energy balance, meter interference, and so forth.

It is envisaged that the primary application of AMI systems is for metering installations using direct-connected meters. The relevant part of NRS 049 is applicable to residential and commercial customers. The application of AMI systems is in response to the need for demand-side management measures, which will mitigate the effects of a shortage of electricity generation capacity at a national level that might occur from time to time.

The AMI system incorporates an AMI master station, from where the configuration and functionality of the system are controlled. The communication network, the AMI meters, a load switch (disconnect/reconnect/load limiting), the appliance (load) control devices (activated through the meter), a customer interface unit and optional interfaces to communicate with a mobile customer interface and to retrieve water consumption data. The communication media between the AMI master station and the meter are not specified. The choice of communication media will be dependent on a number of factors. The communication media may also be changed during the life of the AMI system.

This is intended to evolve towards the inclusion of an industry-agreed set of open communication standards based on international standards, for communication between the AMI master station and meters and concentrators.

4. PROTECTION OF METERING AND CONSEQUENCE MANAGEMENT

Three types of protective device are to be utilized, ranging from being relatively inexpensive at the one end of the scale to expensive at the other end of the scale. The lightly constructed meter box will only be suitable for relatively unproblematic areas and will require an immediate response if used in a more problematic area, when tampering occurs. As part of the future management of meter boxes, there may also be costs related to the installation and maintenance of communication devices with these meter boxes.

CONSEQUENCE MANAGEMENT FOLLOWING METERING THAT WAS INTERFERED WITH

The following factors will lead to meter reinstatement fees being issued:

- Meter found bypassed (as a result of customer initiated interference)
- Meter found tampered in any other way, leading to under-registration of consumption
- Meter found bypassed (as a result of COE own staff correcting a no power situation at some point in history)

A meter reinstatement fee may be waived:

- In the case of individual connections, where a reinstatement fee was levied, motivation may be made in writing by the responsible official, for the reinstatement fee to be reversed based on specific, mitigating factual information. Such reversal shall be approved in writing by the Head of Department: Energy or his delegate.
- The fact that the meter may have been bypassed by COE own staff will not necessarily result in the reinstatement fee being reversed, the customer involved needs proof of this event, or proof that the meter was reported as faulty, especially in the case of prepayment meters that are obviously issuing free units (i.e. bypassed)
- The provisions of the by-laws in relation to back billing remain in place.

5. METERING IN EXISTING AREAS

Existing electricity customers can be categorized as follows:

| | |
|------------|--|
| Category A | Established areas with payment levels exceeding 90% |
| Category B | Established areas with payment levels lower than 90% |
| Category C | Individually metered flats, hostels and townhouses |
| Category D | COE owned property rented to own staff |
| Category E | Manually read existing bulk metered connections (demand meters) |

The above categories of customer will now be discussed in some detail, taking into account practical aspects and cost limitations.

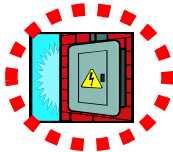
Legend



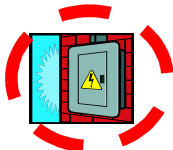
Residence/building



Option acceptable



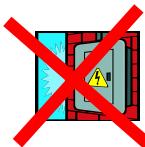
Meter box with light protection



Meter box with medium protection



Meter box with heavy protection



Option unacceptable

5.1 CATEGORY A: ESTABLISHED AREAS (OR NODES) WITH PAYMENT LEVELS EXCEEDING 90%

- ▶ These are more established residential and business nodes. Typically, these areas are fully electrified with underground and/or overhead networks, and credit metering and prepayment meters have been successfully used for many years, and
- ▶ Credit meters in these areas are manually read by appointed contractors.

5.1.1 SITUATION:

- (a) Inaccessibility of meters due to old reticulation methods (i.e. the meter is situated inside the property or inside the home), and
- (b) manual meter readings have inherent quality problems and are very labour intensive, and
- (c) given that credit meters are no longer procured, only prepayment meters are available to install.

5.1.2 METERING STRATEGY

- (a) The credit metering system currently in use is now becoming outdated and must be replaced with a prepayment meter, or a smart meter (when these become available);
- (b) Accessibility problems will be addressed as follows:
 - (i) installation of a prepayment meter, at the cost of COE (and subject to available funding);
 - (ii) as part of larger projects, at the discretion of the HOD: Energy, at the cost of COE (and subject to available funding).
 - (iii) the meter must always be placed on the sidewalk, unless major reticulation work is required to effect this move.
- (c) in the pre smart metering phase, resources should be spent on routine inspections, recovery of lost income, legal action and the replacement of credit meters with prepayment meters.
- (d) Any routine maintenance of metering, whether faulty, or as part of the COE capital program, will be done by installing prepayment meters only (technical restrictions excluded).

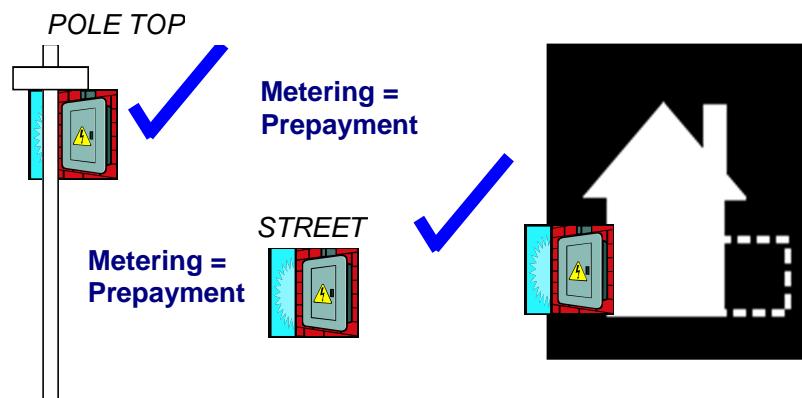


Figure 1: Category A: Established Areas with Payment Levels Exceeding 90%

- (e) Disposal of dilapidated, faulty or damaged replaced meters – All meters that are replaced, shall be evaluated against the Expected Useful Life encapsulated in the Council's Accounting Policy for Assets. Should the replaced meter prove to be beyond the Expected Useful Life or the meter is damaged to such an extent that it is unserviceable it shall be regarded as scrap equipment. The scrap equipment shall be disposed of in terms of Supply Chain Management Policy and Council's approval to the HOD: Energy to dispose of the scrap equipment on an as and when required basis subject to an EWASA registered recycler being appointed by Council.

5.2 CATEGORY B: ESTABLISHED AREAS (OR NODES) WITH PAYMENT LEVELS LOWER THAN 90%

- Established residential and business nodes. Typically, these areas are fully electrified with underground and/or overhead networks, and combinations of credit and prepayment metering have been used with a limited success rate;
- interference occurs daily on the electrical network and the resultant vandalized network presents a serious safety hazard; and
- attempts at normalizing the situation had little or no effect.

5.2.1 SITUATION:

- (a) Inaccessibility of meters due to old reticulation methods (i.e. the meter is situated inside the property or inside the home);
- (b) metering infrastructure is not protected by a robust meter box;
- (c) interference with meters is at an unacceptably high level, and
- (d) manual meter readings have inherent quality problems and are very labour intensive.
- (e) given that credit meters are no longer procured, only prepayment meters are available to install.

5.2.2 METERING STRATEGY 1

- (a) These areas present a serious problem in COE since revenue losses are too high to allow a sustainable electricity service;
- (b) credit metering shall not be used in these areas unless not practically/technically possible (which will be an AMR credit meter);
- (c) depending on the scale of interference with the network and metering, the following must be considered:
 - (i) a prepayment metering system, using split type meters - the metering element to be placed on a pole top and protected by a medium strength meter box, with or without a tamper monitoring device;
 - (ii) a prepayment metering system, using split type meters - the metering element to be placed on the sidewalk and protected by a heavily constructed structure, with or without a tamper monitoring device, and
 - (iii) in the case of items (a) and (b), the prepayment meter will need to have mains-borne communication (power line carrier), Radio Frequency communication or similar, to the customer interface, or alternatively a new service cable containing communication wires

may need to be installed. A separate set of pilot wires may also be installed, leaving the current service cable intact.

- (d) further interference must lead to charges according to the provisions made in the Schedule of Tariffs for the Supply of Electricity under “Miscellaneous Charges”;
- (e) the vandalized network needs to be repaired wherever any work is executed;
- (f) regular inspections to be executed on customers appearing on the BP421 deviation report for credit meter in terms of no-access (until phased out), no-consumption, stuck meters, possible tampered meters; 90 days' non-purchase and low-purchase exception report for prepayment meter;
- (g) any routine maintenance of metering, whether faulty, or as part of the COE capital program, will be done by installing prepayment meters only (technical restrictions excluded, these will be covered with an AMR credit meter);
- (h) accessibility problems shall be addressed as follows:
 - (i) installation of a prepayment meter, at the cost of COE (and subject to available funding);
 - (ii) as part of larger projects, at the discretion of the HOD: Energy, at the cost of COE (subject to available funding); and
 - (iii) the cost related to a requested change in metering resolving a meter access problem, may be fully funded by COE, subject to funding being available. If the request, by the customer, for a change in metering does not resolve an access or similar problem, the cost may be for the customer.

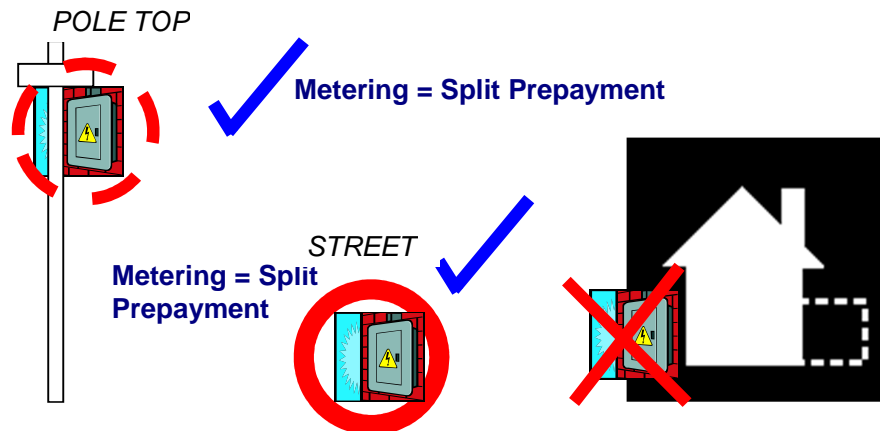


Figure 2: Category B: Established Areas with Payment Levels Lower than 90%

- (i) Disposal of dilapidated, faulty or damaged replaced meters – All meters that are replaced, shall be evaluated against the Expected Useful Life encapsulated in the Council's Accounting Policy for Assets. Should the replaced meter prove to be beyond the Expected Useful Life or the meter is damaged to such an extent that it is unserviceable it shall be regarded as scrap equipment. The scrap equipment shall be disposed of in terms of Supply Chain Management Policy and Council's approval to the HOD: Energy to dispose of the scrap equipment on an as and when required basis subject to an EWASA registered recycler being appointed by Council.

5.2.2 METERING STRATEGY 2

- (a) When more advanced forms of metering are available, the following alternative may be considered:
 - (i) a smart metering system - the metering element to be placed on the sidewalk or pole top and protected by a medium or heavily constructed structure with a tamper monitoring device.
- (b) a change of the metering system must be for the account of COE;
- (c) further interference must lead to charges according to the provisions made in the Schedule of Tariffs for the Supply of Electricity under "Miscellaneous Charges"; and
- (d) a vandalized network needs to be repaired wherever any work is executed. Further actions should be in line with Council's Credit Control Policy.

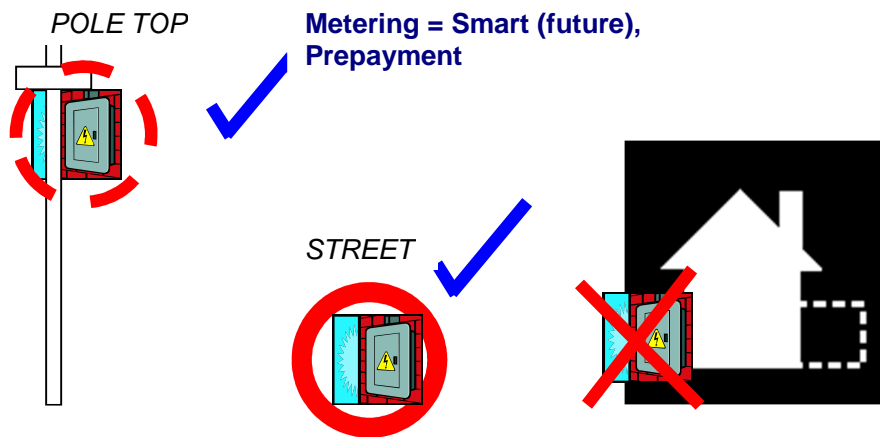


Figure 3: Category B: Established Areas with Payment Levels Lower than 90% - Worst Case Scenario

5.3 CATEGORY C: EXISTING INDIVIDUALLY METERED FLATS, HOSTELS AND TOWNHOUSES

These are defined as all the existing high density residential complexes, which are metered individually. Typically, these complexes are fully electrified with underground and internal networks, and credit and/or prepayment metering have been used with varying degrees of success, for a period.

5.3.1 METERING STRATEGY

- (a) The risk associated with each installation to be assessed by the HOD: Energy;
- (b) Block of flats –
 - (b) 1. Based on the risk assessment the preferred metering strategy is to convert the individually metered units to one bulk AMR metering installation. Should the Energy Department be in a position through funding to convert the individually metered units to one bulk AMR metering installation, the Flat or complex owner be afforded the opportunity to purchase from Council the individual meters for sub-metering purposes on a “voetstoots” basis and the owner will indemnify Council from any defects/inaccuracy of the individual meters. The price of the meter shall be determined against the life expectancy and its depreciated value encapsulated in the

Accounting Policy for Assets. Should the meter have reached or is beyond the Expected Useful Life period, the meter shall be offered to the complex owner at 20% of a new meter's price. If it is determined that the meter is still within its Expected Useful Life, then for each remaining Expected Useful Life year, 4% to be added to the selling price. The rationale for selling the meter "voetstoots" to the complex owner is to mitigate the additional capital outlay to council to remove all the meters and to reconnect the service connections. Also when Council installs a bulk meter it is creating a new point of control/connection/metering point, thereby removing the individual metering, and changing the electrical installation, which will require a Certificate of Compliance (COC) to be issued by Council adding additional accountability and cost to Council. The Department will ensure that each individual meter is removed from the billing system with the correct closing reading. Where the individual meter has a plate which indicate that it is the property of Council, the Department will oversee that the individual meters are defaced or the nameplate removed.

(b) 2. The second option should it not be technically feasible or funds do not permit to follow point b1 above is for split prepayment meters to be installed with metering elements in a meter room/s or protective structure/s installed at Council's cost and keypads wired to individual flats by a private contractor at the owner's cost. Alternatively, mains-borne communication (power line carrier) or Radio Frequency communication may be used;

NOTE: COE no longer install (or procure) electromechanically credit meters. These old meters, in relation to strategy, are therefore worthless to COE.

- (c) Hostels or similar– split prepayment metering and cut-off elements away from building and placed outside in protective structures/meter boxes. Interface units to be wired to each individual unit, or via mains borne communication or via Radio Frequency communication, and
- (d) Townhouse complexes with existing individual metering–As per paragraphs (a), (b) and (c) above.

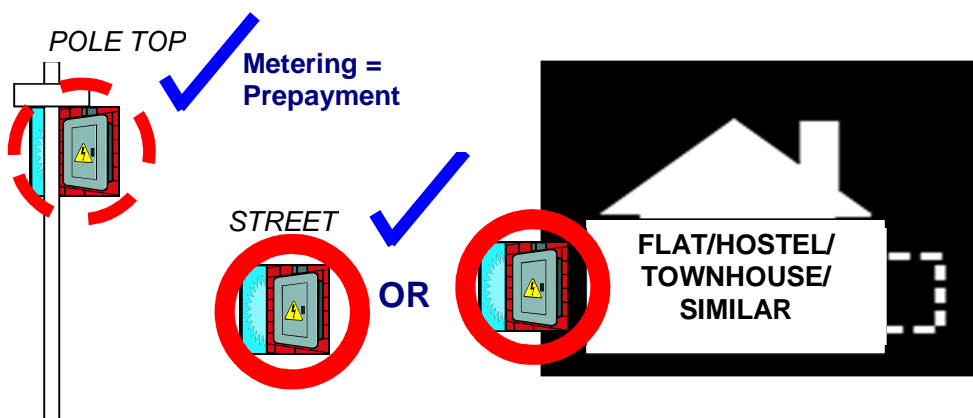


Figure 4: Category C: Individually Metered Flats, Hostels and Townhouses

- (e) Disposal of dilapidated, faulty or damaged replaced meters – All meters that are replaced, shall be evaluated against the Expected Useful Life encapsulated in the Council's Accounting Policy for Assets. Should the

replaced meter prove to be beyond the Expected Useful Life or the meter is damaged to such an extent that it is unserviceable it shall be regarded as scrap equipment. The scrap equipment shall be disposed of in terms of Supply Chain Management Policy and Council's approval to the HOD: Energy to dispose of the scrap equipment on an as and when required basis subject to an EWASA registered recycler being appointed by Council.

(f) MIXED USE RESIDENTIAL AND BUSINESS

Existing stands with mixed residential and business use, will be allowed to receive their electricity supply by means of multiple bulk meters (mostly only 2 meters).

To comply with the Electricity by-laws and for the sake of standardisation, the following technical requirements shall apply:

- One main switch for the property only, isolating the entire property when switched off
- From this main switch, the two (or more) meters may be supplied, one for the business part, and one for the residential part
- **Note: Cost associated with the service connections to the individual metering shall be for the owner's account**
- The meters may be on separate accounts and have separate tariffs
- Credit control will be effected at the main switch only, and not one of the sub-switches.

5.4 CATEGORY D: COE OWNED PROPERTY RENTED TO OWN STAFF

- ▶ Established COE owned residential properties where credit and prepayment metering have been installed;
- ▶ Typically, properties are occupied by employees of various departments of the Council with similar employment benefits; and
- ▶ The properties may also take the form of communal living arrangements.

5.4.1 SITUATION:

Due to traditional arrangements, meters are not read or consumption are not charged to the individual employees (or their respective departments) residing in the properties.

5.4.2 METERING STRATEGY

STRATEGY A

It is understood that several processes are to be finalized before Strategy B can be implemented. These processes require work to be done via the Local Labour Forum and more.

In the absence of the strategy indicated in B below, the HOD: Energy must install a suitable form of metering (also bulk metering where required) at all Council properties, in order to account for all units used.

Streetlight consumption will continue to be estimated, however, estimations require to be done more accurately, i.e. an audit will be required.

STRATEGY B

- (a) The informal nature of the traditional arrangement regarding a free electricity service requires formalization;
- (b) any special arrangement with regards to free electricity to certain individuals needs to be quantified and ratified by the appropriate governance structure;
- (c) a special supply group code has been created on the prepayment vending system, which will issue electricity units in accordance to the Council's Schedule of Tariffs;
- (d) a prepayment meter is to be installed at every individual rental property;
- (e) in the case of a communal property, a prepayment meter is to be installed at technical separation points and the combined consumption (and purchasing of units) needs to be managed by any fair method to be employed by the building manager/owner, and
- (f) interference with meters must lead to fees being charged according to the provisions made in the Schedule of Tariffs for the supply of electricity under "Miscellaneous Charges".

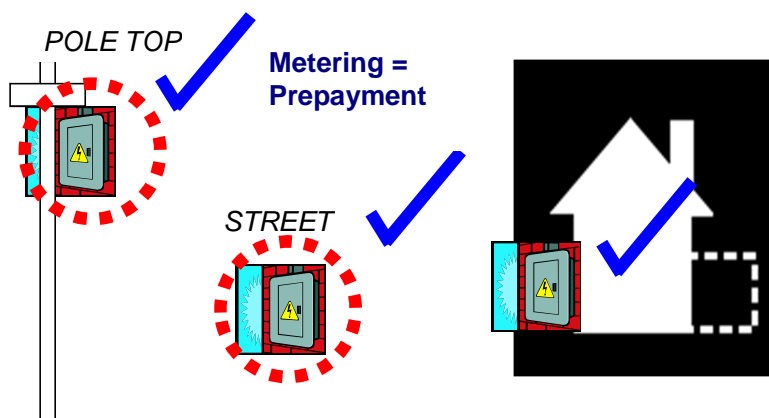


Figure 5: Category D: COE Owned Property Rented to Own Staff

5.5 CATEGORY E: MANUALLY READ EXISTING BULK METERED CONNECTIONS (DEMAND METERS)

- Established residential, mixed residential/business and small business nodes. Typically, these areas are fully electrified with underground and/or overhead networks, with manual read demand metering with a limited success rate in obtaining monthly readings;

5.5.1 SITUATION:

- (a) Inaccessibility of meters due to old reticulation methods (i.e. the meter is situated inside the property, in a substation or in a basement of a flat complex);
- (b) interference with meters may occur without Council's knowledge;
- (c) manual meter readings have inherent quality problems and are very labour intensive; and
- (d) the manual reading of demand meters is considered practically impossible.

5.5.2 METERING STRATEGY

- (a) Reading demand meters manually is impossible and may cause high revenue losses, threatening a sustainable electricity service;
- (b) manually read demand meters must be phased out completely and replaced with automated meter reading (AMR) meters;
- (c) where technically possible, only direct connect AMR meters must be used, negating the need for current transformers (and factor calculations);
- (d) regular monitoring of the correctness of the meter readings obtained from the AMR meter installation shall be carried out and corrective action shall be taken where necessary.
- (e) Disposal of dilapidated, faulty or damaged replaced meters – All meters that are replaced, shall be evaluated against the Expected Useful Life encapsulated in the Council's Accounting Policy for Assets. Should the replaced meter prove to be beyond the Expected Useful Life or the meter is damaged to such an extent that it is unserviceable it shall be regarded as scrap equipment. The scrap equipment shall be disposed of in terms of Supply Chain Management Policy and Council's approval to the HOD: Energy to dispose of the scrap equipment on an as and when required basis subject to an EWASA registered recycler being appointed by Council.

6. METERING IN NEW RESIDENTIAL AND SMALL BUSINESS AREAS

New residential and small business electricity customers can be categorized as follows:

| | |
|------------|---|
| Category F | New residential and business areas (or nodes) |
| Category G | New bulk residential complexes and businesses (AMR demand meters) |

6.1 CATEGORY F: NEW RESIDENTIAL AND BUSINESS AREAS (OR NODES)

- These are defined as in all areas. Typically, these areas are or will be fully electrified with underground or overhead networks, or a combination of the two systems. Metering will be installed as soon as connections are made.

6.1.1 METERING STRATEGY

- (a) A prepayment metering system, using split type meters - the metering element to be placed in a medium or high strength meter box mounted on the sidewalk or pole top;
- (b) interference with the electricity network must lead to fees being charged according to the provisions made in the Schedule of Tariffs for the Supply of Electricity under "Miscellaneous Charges". Further actions should be in line with Council's Credit Control policy; and

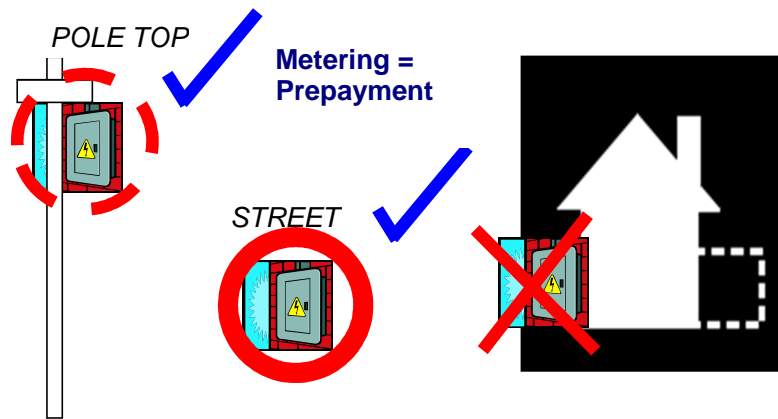


Figure 6: New Residential and Business Areas

* AMR Direct driven credit meters only where technically impossible to install prepayment meters

6.2. CATEGORY G: NEW BULK RESIDENTIAL COMPLEXES AND BUSINESSES (AMR DEMAND METERS)

- ▶ These are defined as new residential complexes and businesses which require a bulk demand meter installation.

6.2.1 METERING STRATEGY

(a) An Automated Meter Reading (AMR) demand meter will be installed at these premises:

- ▶ to completely eliminate manual reading of these meters;
- ▶ where technically possible, only direct connect AMR meters must be used, negating the need for current transformers (and factor calculations);
- ▶ ensure accurate and timeous complex data monthly meter readings are obtained remotely; and
- ▶ regular monitoring of the correctness of the meter readings obtained from the AMR meter installation shall be carried out and corrective action shall be taken where necessary.

(b) MIXED USE RESIDENTIAL AND BUSINESS

Existing stands with mixed residential and business use, will be allowed to receive their electricity supply by means of multiple bulk meters (mostly only 2 meters).

To comply with the Electricity by-laws and for the sake of standardisation, the following [technical requirements shall apply](#):

- One main switch for the property only, isolating the entire property when switched off
- From this main switch, the two (or more) meters may be supplied, one for the business part, and one for the residential part
- [Note: Cost associated with the service connections to the individual metering shall be for the owner's account](#)

- The meters may be on separate accounts and have separate tariffs
- Credit control will be effected at the main switch only, and not one of the sub-switches.

7. DEMAND METER PRINCIPLES

- The following principles shall be adhered to:
 - No demand meter older than 3 years shall be installed (inclusive of shelf life) at installations > 150kVA.
 - No modem, which is not approved by the HOD: Energy, shall be installed.
 - To comply with the NRS057/ SANS474 for metering and for calibration of meters at 5 years (>10MVA) or 10 years (<10MVA) intervals, COE will replace these meters with new meters.
 - This is done to ensure that the meter is used within its lifecycle specification.
 - Replacement meters, and where required CTs/ VTs, shall be the appropriate accuracy class component as required in NRS057/ SANS 474.
 - Protection CTs shall not be used to perform metering functions.
 - Where metering systems are upgraded, all summation CTs will be removed and metering performed with a separate meter per feeder and the summation performed on the AMR system.

8. CREDIT CONTROL MEASURES

The metering and protective devices mentioned above are to be used in conjunction with Council's Credit Control and Debt Collection policy. The intention is to aid credit control by creating an environment that is not conducive to people electing to tamper with the electricity meter installations of COE.

In most of the existing areas, credit control and punitive measures will still be the most cost effective method of dealing with interference, since the capital outlay to protect metering is very high. The current operational costs involved in repairing damage, purchasing locks, disconnecting and reconnecting defaulters must be taken into account when determining a course of action in any area.

9. INDIGENT APPROVAL

A prepayment meter will be installed at the indigent's property (if a full title property) at no cost to the indigent applicant.

Indigents residing in private owned security complexes which is metered through a bulk meter will not be eligible to an individual Council prepayment meter.

10. DEVIATIONS FROM THE POLICY

Complex technical and social conditions may require that deviations from the policy be allowed. Examples, listed below (not exhaustively), requires a case-by-case decision by the HOD: Energy, based on practical aspects:

- Replacing all credit meters in an area or as part of a project, with prepayment metering (as per this policy). During these special projects, amnesty may be required in terms of levying the reinstatement fee for bypassed meters. Such amnesty shall be approved in writing by the HOD: Energy or his delegate and will have specific time duration.

- In the case where a severely mismatched load factor leads to exceptionally high active energy charges to a customer, a retrospective correction in the tariff applied may be recommended to Finance, in writing by the HOD: Energy or his delegate.

11. STAKEHOLDER ENGAGEMENT

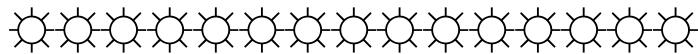
Continuous engagement with stakeholders is required to ensure a sustainable provision of the electricity service.

NOTE: The reference to “they” in the above sentences is a reference to the Department concerned and its personnel

The term “shall” is used throughout this document to indicate those provisions which, are considered to be mandatory.

The term “should” is used to indicate those provisions which, although not mandatory, are provided as a recognized means of meeting the requirements.

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IDP and BUDGET

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Annexure D14

POLICY FOR THE VENDING OF PRE- PAID ELECTRICITY

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VENDING OF PREPAYMENT ELECTRICITY

1. DEFINITIONS

Vending means the sale of electricity to customers with prepayment electricity meter connections

Tampering means unauthorized interference with the metering installation in a way that damages it or slows it down or to bypass the meter, resulting in no or a reduction in consumption being registered.

Vending service provider means the entity appointed by Council to manage the sale of prepayment electricity.

Vending agents means the outlet appointed by the vending service provider to sell prepayment electricity.

Disaster recovery is the process, policies and procedures that are related to preparing for recovery or continuation of technology infrastructure which are vital to an organization after a natural or human-induced disaster.

Cash -Power Transfer Specification (CTS) is a proprietary secure message protocol that allows information to be carried between point of sale equipment and prepayment meters.

Standard Transfer Specification (STS) is a secure message protocol that allows information to be carried between point of sale equipment and prepayment meters.

On-line vending system is a vending system where transactions requests are handled by means of real time communications and no batch communication of transactions is permitted.

Any reference to his or her includes both genders

2. VENDING SYSTEMS

- 2.1 The HOD: Energy, or his delegate, shall assume total responsibility for the operation and maintenance of the vending system within COE, with the exception of the handling of cash and the staffing of the various vending stations. ICT staff are to assist the HOD: Energy whenever and where required ensuring the continued operation of the vending system.
- 2.2 The GCFO is responsible for the handling of cash and the staffing of vending stations within the Ekurhuleni Metropolitan area. Electronic integration between the billing system and the vending system must be established.
- 2.3 The GCFO is responsible for the contract employed to ensure prepayment vending through third party vendors. This is done for the convenience of the COE customers, and essentially, entails the extension of existing vending points. Many of the outsourced points are open 24 hours per day.
- 2.4 The vending system to be used by COE shall be an on-line vending system.

- 2.5 The integration between the vending system and the Council's billing systems must cater for the blocking of the vending of electricity as per the requirement of the GCFO.
- 2.6 High availability is to be achieved through having an offsite disaster recovery site to permit continued vending should the primary system fail.

Redundant connectivity to COE's network needs to be in place for third party service providers to permit continued vending should the primary connectivity fail.
Daily back-ups of vending system data are to be made.
- 2.7 A control system must be in place to ensure that every meter procured, once delivered is loaded onto the system. Only four system meter stores will be permitted, these being Ekurhuleni Free Meters, Ekurhuleni Scrap Meters, Ekurhuleni to Be Tested Meters and Ekurhuleni Removed Meters Holding Store
- 2.8 No vending to individual sub-consumers of bulk customers i.e. blocks of flats, town house clusters, hostels, etc. is to be provided by COE. Instead the complex owner or body corporate is to make their own arrangements for such vending if required. Historic arrangements where individual sub-consumers are metered by COE will continue until phased out.
- 2.9 Vending systems shall be designed to vend in terms of Council policies, including
Monthly issues of Free Basic Electricity and shall be able to accommodate future policy changes.
- 2.10 Mandatory information on the vending system is a key field common to both vending and billing systems that identifies the property as well as fields identifying the township, depot, physical address of the property, owner account number and owner details.
- 2.11 The integration between the billing system and vending system must provide for automatic updating of owner or property details within the vending system to reflect any changes to owner or property details carried out on the billing system.
- 2.12 Integration between the billing system and vending system must provide for vending system transaction data to be automatically written into the billing system.
- 2.13 The integration between the billing system and the vending system must be done in such a way to ensure that the necessary data applicable to all new connections as well as changes to connections must be written to both systems.
- 2.14 All new pre-payment applications shall be captured through COE Business Process Management system in order to maintain the integrity of point of connection, account and meter and owner data on the vending system for all meters that are installed.
- 2.15 The vending system must be regularly upgraded to stay current with the latest release.

3. REPORTING

- 3.1 User-friendly reporting is a prerequisite of the system.
- 3.2 The vending system must support connectivity from report writing software in a non-proprietary manner such as open data base connectivity (ODBC) to permit user defined, specific reports, to be created.
- 3.3 The types of standard reports, at a minimum, that are required include:
 - 3.3.1 Low purchase levels as specified by user (i.e. <50 kWh per month).
 - 3.3.2 Purchase history of customer.
 - 3.3.3 Summaries of connections per tariff.
 - 3.3.4 No-purchase report for specified periods (e.g. 90 days no purchase).
 - 3.3.5 Connection history of a stand.
 - 3.3.6 Connection history of a meter.
 - 3.3.7 Reports detailing number of transactions per vendor as well as total sale per vendor for specified periods.
 - 3.3.8 End of shift reports.
 - 3.3.9 Report detailing actions of users.
 - 3.3.10 Reversals, free issues and vending transactions.
 - 3.3.11 Sales (monetary value and kWh by township (suburb) and CCA).
 - 3.3.12 Active and inactive users.
 - 3.3.13 Report showing history of meters blocked and unblocked.
- 3.4 Training is to be provided to all COE staff involved with vending on an ongoing basis.

4. PROVISION OF VENDING STATIONS

- 4.1 In terms of NRS 047 - 2 (quality of service), a vending station is, where practical, to be located within a 5 km radius of every customer.
- 4.2 Where practical a vending station is to be provided and operated for every 2000 customers, as required by NRS 047 - 2.
- 4.3 In order to ensure that vending is available to customers on a 24 hour basis, the GCFO shall appoint a vending service provider/s. These providers will be required to appoint and manage vending agents that are suitable outlets to perform vending on behalf of Council. The vending service providers shall manage the entire third party vending function on behalf of Council inclusive of collecting monies due to Council from the vending of prepayment electricity by the vending agents and depositing the monies collected into Council's bank account. All such vending shall be carried out by means of on-line vending through Council's vending system.
- 4.4 The appointment of such agents to be done in terms of Council's Procurement Policy.

5. TYPES OF METERS

Energy is phasing out CTS meters but due to a number of CTS meters still being used in the network, the vending system should be able to vend to both CTS and STS meters until they are phased out.

6. DEVIATION REPORTS

Monthly deviation reports are to be run to identify customers who have potentially tampered with their electricity meter.

Inspections of these customer's electricity connections are to be carried out.

Inspections that establish that a customer has tampered with his or her meter will require that the necessary action, as detailed under the provisions of the Council's by-laws for the supply of electricity, and/or in terms of Council policies, shall be taken.

7. INFORMING CUSTOMERS

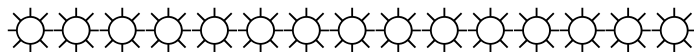
All new and existing prepaid electricity customers must be informed regarding Council's policy on prepayment electricity vending systems, using existing structures such as customer forums, etc.

NOTE: The reference to “they” in the above sentences is a reference to the Department concerned and its personnel

The term “shall” is used throughout this document to indicate those provisions which, are considered to be mandatory.

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IDP and BUDGET

2018/19 - 2020/21



Annexure D15

POLICY FOR CORRECTION OF METER READING AND BILLING DATA

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POLICY FOR CORRECTION OF METER READING AND BILLING DATA

1. BACKGROUND

Meter reading and billing errors have occurred in the past and continue to occur due to equipment failure, as well as human error. The main principle in correcting meter readings and billing data is fairness to the customer and to COE.

2. METHODOLOGY

Where any meter is found to have ceased to register and to have registered inaccurately then:

- The quantity of electricity consumed at the property is to be paid for by the customer.
 - Payment shall be determined from the date of last accurate reading of the meter prior to its failure to register or becoming faulty.
 - Payment will therefore be up to the time of its repair or replacement and shall be estimated by the HOD: Energy on the following basis:
- (1) Where a meter has ceased to register correctly, the Council must repair or replace the meter as soon as possible.
 - (2) Where a meter has been replaced or repaired in accordance with (1) above or it can be proved to the satisfaction of the Council that a lesser or greater quantity of electricity has been consumed the Council must estimate the quantity of electricity that is to be paid for by the customer. The Council's estimate must be fair and reasonable and be for the period from the date of the last accurate reading of the meter prior to the meter's repair or replacement. It must be based on one or any applicable combination of the following:
 - (a) The average monthly or daily consumption of electricity on the premises served by the meter during the 12 months, or any reasonable lesser representative period, before, or 3 months after the replacement of the meter. If the consumption pattern has changed due to seasonal or production related or any other acceptable reasons during the affected period, the Council may obtain proof, or request proof from the customer as to what has changed during the period and factor in the changes, or
 - (b) the consumption of electricity on the premises for the corresponding months, or partial meter reading periods (inclusive of 30-minute interval values) of corresponding months, of the previous year taking into account seasonal variations or variations in production statistics; or
 - (c) any other technical method, using any combination of any available historical or current data, inclusive of load factor, power factor and diversity based calculations.
 - (d) The decision on the final method(s) applied will be the prerogative of Council.
 - (3) Where a meter or meter installation is proven faulty by a known factor, such as those resulting from an incorrect multiplication ratio, or failed current transformer or voltage transformer, meter test result, and similar, the exact ratio will be determined and applied to readings

to obtain the true value of consumption and the Council must calculate the quantity of electricity that is to be paid by, or credited to, the customer.

- (4) Where a customer requested an adjustment, and it can be proven to the satisfaction of the Council, that the customer was not in occupation of the premises for a part of the period, or the full period, the account will be adjusted in accordance with the period the customer was in occupation.
- (5) Where the Council meter has failed and the customer can produce accurate check meter readings, these readings can be used for the correction provided that the customer meter and the Council meter readings correlates, after the Council meter has been corrected. Compensation for losses in a transformer (MV to LV) can be taken into account if the Council meter and customer meters are installed at different voltage levels.
- (6) The Council shall have the right to replace a faulty meter with any newer technology meter or with a meter standardised in Council's policies.

3. COMMUNICATION

3.1 Prior to any adjustments being made to a customer's account:

3.1.1 the customer must be advised by the COE Manager: Revenue Services that an error has been detected with his/her account/meter and that such error is being investigated. Proof of delivery to the customer must be recorded and included in the documents supporting the bill correction report.

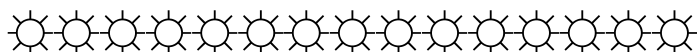
3.1.2 a report must be prepared and communicated with the customer for discussion. Such a report must contain sufficient details to enable the customer to submit representations within 21 days, if necessary. If the customer refers the bill correction report to his/her attorneys, the COE legal section must be informed to enable COE to take the required legal action if required.

3.2 should the customer fail to make any representations in the prescribed period, then Council is entitled to adjust the account as per the report referred to in 3.1.2.

3.4 the Council shall consider any representations the customer may make and if satisfied that the submission is relevant, adjust the account appropriately.

4. DEVIATIONS

Specific circumstances, requiring a deviation from this policy may be considered by the HOD: Energy. Any deviation must be documented and signed off by the HOD: Energy.



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Annexure D16

ELECTRICITY TARIFF POLICY

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ELECTRICITY TARIFF POLICY

1. APPLICATION AND SCOPE

The policy is applicable to the City of Ekurhuleni.

2. OBJECTIVES OF POLICY

- ▶ To comply with guidelines received from the National Energy Regulator of South Africa
- ▶ To determine cost reflective tariffs, as far as is possible
- ▶ To ensure equitable pricing
- ▶ To ensure affordability of basic services to the community
- ▶ To ensure compliance with the Municipal Systems Act
- ▶ To comply with the provisions of the Electricity Regulation Act 4 of 2006
- ▶ To comply with the provisions of the Constitution of the Republic of South Africa
- ▶ To comply with the provisions of the Municipal Finance Management Act
- ▶ To comply with the provisions of the Electricity Bylaws
- ▶ To comply with the provisions of Electricity Pricing Policy of the South African Electricity Supply Industry - Government Gazette No. 31741
- ▶ To comply with other National Policies

3. INTRODUCTION

The COE structural tariff adjustments will be in synch with the pricing signals received from Eskom and attempt to persuade electricity customers to avoid peak periods and seasons. Any proposed increase will also be in line with the mission statement of this municipality in that it provides sustainable (sufficient to cover the cost of rendering the service) and people-centred electricity tariff structures and prices, that are also affordable.

Tariffs will also contain signals that encourage energy efficiency and the investment in efficient appliances.

Any adjustments effected to Council's tariffs should take cognisance of the above realities and need to be balanced in terms of cost-reflectivity and operational budgetary requirements, whilst at the same time meeting the regulatory requirements of the National Energy Regulator of South Africa.

Council's current Tariff A residential use remains in the NERSA prescribed Inclining Block tariff (IBT) format. Tariff B (Residential and Bulk Residential) will be available for higher use residential customers and whereas the Residential Resellers component of this tariff structure will be exclusively available for Bulk Residential complexes.

Tariff A Business is applicable to the small business component and B (Business, Mixed Business-Residential) is applicable to the small to medium business/mixed business component.

Tariffs C, D and E are applicable to the larger business and industry component.

A negotiated pricing agreement may be entered into where exceptional circumstances are proven.

4. TARIFF STRUCTURE

The following is a brief description of each of COE's electricity tariffs intended to achieve the objectives as set out above.

| # | Tariff | Description, Customers targeted |
|----|---|--|
| 1 | Tariff A (Business) | This tariff: <ul style="list-style-type: none"> is available for small business only. is for single-phase 230 V connections or multi-phase 400/230V connections with a capacity of up to 80 A per phase and will suit low consumption micro business customers. |
| 2 | Tariff A (IBT) | This tariff: <ul style="list-style-type: none"> is available for <u>residential</u> customers only. The first 100kWh in the first block will be free. is based on the inclining block principle, i.e. the more units used, the higher the rate becomes. provides Free Basic Electricity to qualifying customers. |
| 2a | Tariff A Flat Rate | This tariff: <ul style="list-style-type: none"> needs to be phased out with customers merged onto the IBT (as per NERSA) provide Free Basic Electricity to qualifying customers |
| 3 | Tariff B (Residential and Bulk Residential) | This tariff: <ul style="list-style-type: none"> is available for <u>residential</u> customers. with the exception of the Resellers section "bulk residential", is not available for medium and high voltage customers. will suit medium to high consumption residential customers. Resellers are bound by the Electricity Regulation Act 4 of 2006 and the Electricity By-laws to resell electricity to end users as per the Electricity By-laws. The residential reseller's tariff shall only be applied by Ekurhuleni where Ekurhuleni has approved and installed a bulk meter to measure the total consumption of the bulk residential complex. |
| 4 | Tariff B (Business, Mixed Business and Residential, Commercial or Industrial) | This tariff: <ul style="list-style-type: none"> is available for all business single-phase 230 V or multi-phase 400/230 V connections with a capacity of up to 150 A per phase or 100 kVA. is not available for medium and high voltage customers. will suit medium to high consumption small business customers. |
| 5 | Tariff C (Multi part tariff – not time of use) | This tariff: <ul style="list-style-type: none"> is available for bulk supplies at any voltage and with a capacity of at least 25 kVA. |

| | | |
|----|--|--|
| | | <ul style="list-style-type: none"> is for existing Tariff C customers only, no new customers will be allowed on this tariff, unless authorized by the HOD: Energy. |
| 6 | Tariff D (Multi part tariff – Time of Use) | This tariff: <ul style="list-style-type: none"> is for bulk supplies at any voltage and with a capacity of at least 1 MVA and a network access charge of at least 1 MVA over the previous 12 months. is available for new and existing customers. will suit large business and industrial customers. |
| 7 | Tariff E (Multi part tariff – Time of Use) | This tariff: <ul style="list-style-type: none"> is available for bulk supplies at any voltage and with a capacity of > 25kVA and a NAC of < 1 MVA. is available for new and existing customers. will suit small to medium size business and industrial customers |
| 8 | Tariff F | <ul style="list-style-type: none"> This tariff exists for COE own street light and traffic light consumption |
| 9 | Tariff H (Multi part tariff Residential Time Of Use) | <ul style="list-style-type: none"> This tariff is available for all residential customers single-phase 230 V or multi-phase 400/230 V connections with a capacity of up to 150 A per phase or 100 kVA. NOTE: The implementation of this tariff is dependent on the availability of advanced metering infrastructure and smart meters. |
| 10 | Tariff I (City Power tariff) | <ul style="list-style-type: none"> This tariff is available to City Power only, where cross boundary supplies are applicable. |
| 11 | Tariff J | <ul style="list-style-type: none"> This tariff is available for bulk supplies at medium and high voltage situated in a position within COE demarcated boundaries and designated as close-coupled to the Eskom grid, upon agreement with the HOD: Energy. |

5. MAINTENANCE FUND

A determined percentage of the electricity tariffs shall feed into a maintenance fund. This fund is used for refurbishment of the existing electricity networks. This is not a levy as defined by the Municipal Fiscal Powers and Functions Act.

6. ENERGY EFFICIENCY FUND

A determined percentage of the electricity tariffs shall feed into an energy efficiency fund. This fund is used for projects aimed at increasing electricity efficiency. This is not a levy as defined by the Municipal Fiscal Powers and Functions Act.

7. MISCELLANEOUS CHARGES

Tariffs are applicable for miscellaneous activities and services rendered as specified in the approved schedule of tariffs.

8. APPROVAL OF TARIFFS

Tariffs are approved by Council in terms of clause 24(2)(c)(11) of the Municipal Finance Management Act 56 of 2003, and by the National Energy Regulator of South Africa (NERSA) in terms of clause 4(a)(ii) of the Electricity Regulation Act 4 of 2006. If the tariffs approved by Council differ from the tariffs approved by NERSA, the Council approved tariffs shall be applied, until the matter is resolved.

9. DEVIATIONS

Any justified deviations from the policy with regard to implementation of “Special Projects” shall be considered by the HOD: Energy and authorized if they are satisfied with the aims of such a project.

Similarly, any deviation from the exact wording of the tariff policy, which may be required in unique customer cases, shall be considered by the HOD: Energy and authorized if they are satisfied with the aims of such a deviation.

NOTE: The reference to “they” in the above sentences is a reference to the Department concerned and its personnel

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IDP and BUDGET

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Annexure D17

VIREMENT POLICY

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VIREMENT POLICY

1. INTRODUCTION

The compilation of a virement policy is based on the guidelines issued in Budget Circular No 51 published by National Treasury. The MFMA and the Municipal Budget and Reporting Regulations seek to move municipalities away from the traditional approach of appropriating/approving budgets by line item. The aim is to give the heads of municipal departments and programmes greater flexibility in managing their budgets. To further facilitate this, each municipality must put in place a council approved virements policy, which should provide clear guidance to managers of when they may shift funds between items, projects, programmes and votes.

Webster's New Millennium™ Dictionary of English defines "*Virement*" as "*a regulated transfer or re-allocation of money from one account to another, especially public funds.*" A virement represents a flexible mechanism to effect budgetary amendments within a municipal financial year.

Changing circumstances and priorities during a financial period may give rise to a need to virement (transfer) funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may, however, be dependent on whether an adjustments budget is required or not.

2. PURPOSE

- a) The Group Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. A municipality's virement policy and its underlying administrative process within the system of delegations is one of these controls.
- b) Section 81(1)(d) of the MFMA states inter alia that "*The chief financial officer of a municipality-...must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;*"
- c) It is the responsibility of each Head of Department to which funds are allocated, to plan and conduct assigned operations so as to not expend more funds than budgeted and to ensure that funds are utilized effectively and efficiently.
- d) Section 78(1)(b) of the MFMA states inter alia that "*Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure-...(b) that the financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;*"
- e) This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day-to-day management of their budgets. In addition, it specifically aims to empower senior managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the municipality's system of delegations.

3. DEFINITIONS

- a) *Accounting Officer (MFMA)*
“(a) in relation to a municipality, means the municipal official referred to in section 60 of the MFMA
- b) *Approved Budget (MFMA)* “- means an annual budget-
i. approved by a municipal council; or
ii. approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28;”
- c) *Group Chief Financial Officer (MFMA)*
“a person designated in terms of section 80(2)(a) of the MFMA”
- d) *Head of Department*
Section 56 of the Systems Act states inter alia that: “Appointment of managers directly accountable to municipal managers - (a) a municipal council, after consultation with the municipal manager, appoints a manager directly accountable to the municipal manager...”
- e) *Financial year*
The 12-month period between 1 July and 30 June.
- f) *mSCOA Project*
Capital projects refer to expenditure of a "long term nature" and capitalised to the Property, Plant and Equipment group of accounts in the financial statements. Projects are therefore created along this definition of capital and the detail included under the labels for either infrastructure or non-infrastructure projects.

Operational projects refer to current and short term projects for which the cost is immediately recognised as an expense and funded from the municipalities operational budget
- g) *mSCOA Function (vote as per MFMA)*
i. Function is the standardised vote structure referred to in Section 1 of the Municipal Finance Management Act
ii. Function is one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
iii. which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.”
iv. The City of Ekurhuleni (CoE) definition of Vote is set at department level.
- h) *mSCOA Funding Source*
Funding sources available to the municipalities to invest in municipal activities.
- i) *Municipal Classification*
The Municipal Classification is the 7th unregulated SCOA segment and is informed by the organisational structure of a municipality.

j) *Regional Segment*

The purpose of the regional segment is to assign municipal expenditure and at the discretion of the municipality some revenue to the lowest relevant geographical region to identify the communities that benefit from spending. This implies that expenditure must be recorded so that the final impact of such spending can be measured by region in order to get a regional view of the economic impact of government spending.

k) *Virement*

The process of transferring an approved budgetary provision from one operating cost element or capital project to another within a vote during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption.

4. MFMA REGULATION ON BUDGET VERSUS EXPENDITURE

a) The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions. Section 15 – Appropriation of funds for expenditure

“A municipality may, except where otherwise provided in this Act, incur expenditure only-

- i. in terms of an approved budget; and*
- ii. within the limits of the amounts appropriated for the different votes in an approved budget.”*

b) Unauthorized expenditure (MFMA Definition)

“in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3), and includes-

- i. overspending of the total amount appropriated in the municipality's approved budget;*
- ii. overspending of the total amount appropriated for a vote in the approved budget;*
- iii. expenditure from a vote unrelated to the department or functional area covered by the vote;*
- iv. expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;*
- v. spending of an allocation referred to in paragraph (ii), (iii) or (iv) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or*
- vi. a grant by the municipality otherwise than in accordance with the MFMA;”*

c) Overspending (MFMA Definition)

- i. “in relation to the budget of a municipality, means causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;*
- ii. in relation to a vote, means causing appropriation under that vote to exceed the amount budgeted for that vote; or*

Section 71(1)(g)(iii) states inter alia *“(1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:...(g) when necessary, an explanation of- ...(iii) any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget....”*

5. VIREMENT REQUIREMENTS

- a) The virement process represents the major mechanism to align and take corrective (financial/budgetary) action within a department or functional area during a financial year.
- b) Virement within the mSCOA Function is permitted as the total amount appropriated for the purpose of the functional area will not increase or reduce. Virement from one mSCOA Function to any other mSCOA Function is not permitted in terms of the National Treasury Circular 89.
- c) Virement is only permitted for transfer within the same the Funding Source. Any virements to or from a different Funding Source should be done through adjustment budget.
- d) Virement to or from the Municipal Classification segment
In order for a function (department) to transfer funds from one cost center to another cost center, a saving has to be identified within the monetary limitations of the approved “giving” cost center allocations on the respective budgets.
- e) Virement to or from mSCOA Regional segment is permitted on condition that it does not hinder service delivery with regards to the delivery of ward priorities as approved in the adopted or adjustment budget.
- f) Sufficient, (non-committed) budgetary provision should be available within the “giving” vote or project concerned to give effect to the budgetary transfer (virement). In addition, the transferring function must clearly indicate to which cost center or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.
- g) Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA Section 28).
- h) In terms of Section 17 of the MFMA a municipality’s budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.

Circular 51 issued by National Treasury gives the following guiding principles which could be incorporated into the virements policy:

- *Virements should not be permitted in relation to the revenue side of the budget;*
- *Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);*
- *Virements from the capital budget to the operating budget should not be permitted;*
- *Virements towards personnel expenditure should not be permitted;*
- *Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;*

- *Virements should not result in adding 'new' projects to the Capital Budget;*
- *Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted; and*
- *There should be prudent limits on the amount of funds that may be moved to and from votes and sub-votes (e.g. not more than 5 per cent of the budget may be moved to or from a vote, programme, project etc.).*

6. OPERATING BUDGET VIREMENTS

- Virements are not allowed to utilize special purpose budgetary allocations, adopted by Council as such and to which specific Council recommendations apply and which result from specific resolutions adopted when adopting the budget, as virement sources.
- Virement is not permitted from the repairs and maintenance projects being part of the Operational project segment. Virement to or within the repairs and maintenance projects is allowed.
- Virement to or from the municipal running cost projects and virement to or from typical work stream projects is allowed.
- Sound motivations should be provided for all virements, as provided for on the virement documentation. Motivations for virements between projects should clearly state the reason for the saving within the "giving" project, as well as the reason for the additional amount required.
- Revenue items:
 - Except for Operating and Capital Transfers and Subsidies revenue items, no virements will be approved on any Revenue elements. Revenue provisions' amendments are to be adopted via an adjustments budget.
 - Virement of the income budget between the various CCA's are allowed, as long as the income category is not increased/decreased. (motivation – though the total per category is not changing, it might be necessary to adjust the income budgets between the various income line items or CCA budgets).

Virements on various mSCOA item expenditure are discussed below:

- Employee related costs:
 - Virements are allowed between line items of - and only if these virements are within - this item expenditure.
 - Virements are allowed between the various cost centers due to the change of the organizational structure of Council. (motivation – staff move in a department to other divisions or even CCA's)
 - Virements are allowed in cases where a general provision was made for certain type of salary expenses (i.e. general provision made for temporary appointments for staff on maternity leave of long extensive sickness, allocation of pooled funds for new positions, etc.)
- Remuneration of Councilors
 - Virements within this category are allowed.

- ii. No virements to and from this category are allowed.
- h) Transfers and Subsidies - Operational:
 - i. No virements are permitted to and from Transfers and Subsidies - Operational, except if supported by a Council decision for such transfer and as per the approved Grants-in-Aid Policy.
- i) Any other expenditure items (general expenditure)
 - i. Virements to and from General Expenditure are allowed
- j) The following categories are not to be used as sources of virements, but virements are allowed within each line item:
 - i. Training related expenditure
 - ii. Bargaining Council provisions and skills development levies
 - iii. Insurance related provisions
 - iv. Pensioner and Continued Members
 - v. All vehicle operating budget line items
- k) No virements are allowed to and from the following items or provisions:
 - i. Capital Expenditure-related elements
 - ii. Scrapping of Assets / Stock
 - iii. VAT
 - iv. Insurance Fund
- l) Contracted Services
 - i. Virements to and from these items are allowed.
- m) Departmental charges and internal cost line items
 Provision is made for the charges of some internal costs to various departments including departmental costs of municipal services. Departments are not allowed to use any of these line items as a source of virement. However, the Group Chief Financial Officer may effect virements within this category of line items, both in terms of expenditure and income recoveries.
- n) No virements will be permitted to and from the following expenditure categories, unless such amendments are effected within the line item:
 - i. Bulk Purchases (unless it directly relates to additional income from sales)
 - ii. Bad Debts
 - iii. Interest Charges and Depreciation
 - iv. Indigent Relief and Income Forgone
 - v. Appropriation Account
- o) Virements may not increase or decrease the total approved budget
- p) Virements will be approved on condition that the requirements of all mSCOA segments are met.

7. CAPITAL BUDGET VIREMENTS

- a) Only virements which relate to projects approved as part of annual or adjustments budget, will be permitted.
- b) No virements of which the affect will be to add “new” projects onto the Capital budget will be allowed.
- c) Virements must be between projects of similar funding sources (e.g. from EFF to EFF).
- d) Implementation of the project from which funds are viremented may not be prejudiced (i.e. must not hinder completion of the project).
- e) Virements are not allowed if the IDP goal or the SDBIP target is affected. Such cases must be addressed in the Adjustment Budget.
- f) Motivations for virements should clearly state the reason for the saving within the “giving” project, as well as the reason for the additional amount required.

8. PROCESS AND ACCOUNTABILITY

- a) Accountability to ensure that virement application forms are completed in accordance with Council’s Virement Policy and that these are not in conflict with a department’s strategic objectives rests with the Head of Department.
- b) Completed virement documentation is to be effected by the Divisional Head: Budget and Management Accounting after the necessary approvals have been consented to in signature.
- c) Despite the above conditions the Group Chief Financial Officer may implement additional conditions for any transfers within the Virement Policy. Such conditions may be addressed before the implementation of the new budget or during the financial year. This would enable the GCFO to comply with any national or provincial directives issued during the year.
- d) mSCOA (Standard Chart of Accounts) Requirements
That any virements between existing line items or from existing line items to new line items as prescribed in the Standard Chart of Accounts be allowed to eventually comply fully with the line items as per the Standard Chart of Accounts.



IDP and BUDGET

2018/19 - 2020/21



Annexure D18

CONSUMER AGREEMENT POLICY

PREAMBLE

WHEREAS it is expedient for municipalities to take reasonable steps to ensure that services are rendered to consumers;

AND WHEREAS the submission and updating of valid customer information are critical in delivery of service, statements and collection process;

NOW THEREFORE the Council of the City of Ekurhuleni has adopted the Consumer Deposit Policy as set out hereunder –

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CONSUMER AGREEMENT POLICY

1. DEFINITIONS

For the purpose of this policy, any word or expression to which a meaning has been assigned in the Act, shall bear that same meaning in this policy, unless the context indicates otherwise:

- "Account"** : Account in name of customer held with the City of Ekurhuleni;
- "Account Statement"** : Account Statement - formal notification by means of a statement of account to registered account holder liable for payment of amounts levied for fees, charges, surcharges on fees, property rates and other municipal taxes and services, levies, penalties and duties, indicating the net accumulated balance of the account
- "Act"** : means the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), as amended from time to time;
- "Arrears"** : Amount due, owing and payable in respect of fees, charges, surcharges on fees, property rates and other municipal taxes and services, levies, penalties and duties and not paid by the due date;
- "By-law"** : means a by-law adopted by the Municipality;
- "Chief Financial Officer"** : means the person appointed by the municipality as Chief Financial Officer of the City of Ekurhuleni in terms of section 56 of the Local Government : Municipal Systems Act, 2000 (Act 32 of 2000);
- "City Manager"** : means the person appointed by the Municipality as the City Manager of the City of Ekurhuleni in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998), and includes any person acting in such position and to whom the City Manager has delegated a power, function or duty;
- "Consumer"** : means any occupier of any premises to which the municipality has agreed to supply or is actually supplying municipal services, or if there is no occupier, the owner of the premises and or recipient and or consumer of

various services rendered by the municipality. A customer will therefore be deemed a customer by virtue of receiving, consuming and or utilising any facility, equipment, service rendered by the municipality and or a municipal entity or an agent as appointed by the municipality

- “Council”** : Means –
- (a) the “Municipality” and vice versa;
 - (b) the Council of the City of Ekurhuleni established by Provincial Notice No. 6768, as amended, exercising its legislative and executive authority through the municipality;
 - (c) its successor in title; or
 - (d) a structure or person exercising a delegated power or carrying out an instruction, where any power in these by-laws has been delegated or sub-delegated, or an instruction given, as contemplated in section 59 of the Act;
 - (e) a service provider fulfilling a responsibility under these by-laws, assigned to it in terms of section 81(2) of the act, or any other by-law, as the case may be.
- “customer”** : means “Consumer”
- “illegal connection”** : a connection to any system through which municipal services are provided, which is not authorised or approved by the Municipality or its authorised agent;
- “municipality”** : means the “council” and vice versa
- “owner”**
- (a) in relation to a property referred to in paragraph (a) of the definition of “property”, means a person in whose name ownership of the property is registered;
 - (b) in relation to a right referred to in paragraph (b) of the definition of “property”, means a person in whose name the right is registered;
 - (c) in relation to a land tenure right referred to in paragraph (c) of the definition of “property”, means a person in whose name the right is registered or to whom it was granted in terms of legislation; or
 - (d) in relation to public service infrastructure referred to in paragraph (d) of the definition of “property”, means the organ of state which owns or controls

that public service infrastructure as envisaged in the definition of “publicly controlled” : provided that a person mentioned below may for the purpose of these By-laws be regarded by the Council as the owner of a property in the following cases:

- (i) A trustee, in the case of a property in a trust excluding state trust land;
- (ii) An executor or administrator, in the case of a property in a deceased estate;
- (iii) A trustee or liquidator, in the case of a property in an insolvent estate or in liquidation;
- (iv) A judicial manager, in the case of a property in the estate of a person under judicial management;
- (v) A curator, in the case of a property in the estate of a person under curatorship;
- (vi) A person in whose name a usufruct or other personal servitude is registered, in the case of a property that is subject to a usufruct or other personal servitude;
- (vii) A lessee, in the case of a property that is registered in the name of the Council and is leased by it; or
- (viii) A buyer, in the case of a property that was sold by the Council and of which possession was given to the buyer pending registration of ownership in the name of the buyer;
- (e) any legal person, including but not limited to:
 - (i) a company registered in terms of the Companies Act, 1973, a trust, a close corporation registered in terms of the Close Corporations Act, 1984; as amended by the Companies Act, 2008;
 - (ii) any department of State;
 - (iii) any Council or Board established in terms of any legislation applicable to the Republic of South Africa;
 - (iv) any Embassy or other foreign entity.

“Registered Property” : Property registered in Deeds Office

2. CONSUMER AGREEMENT

- (a) In order to ensure that a proper legal relationship exists between the Council and its customers, no services shall be supplied unless a consumer agreement had been entered into between the Municipality and the customer.
- (b) The customer must apply for the services on the form prescribed by Council, and the consumer agreement must form an integral part of the application.
- (c) The customer must furnish all the particulars required in the application form and sign it before it is submitted to the Municipality.
- (d) A consumer agreement must be updated whenever the provisions of the agreement no longer reflect the correct particulars of the customer, or the type of service rendered to the owner or occupier of property changes.
- (e) The employees of the municipality must take care that the customer understands what information is required in the application form as well as the implications when applying for a service.

3. DEPOSIT

Deposit in respect of services will be raised as set out in Deposit Policy, the amount of which is determined by Council, from time to time.

4. CATEGORIES OF CONSUMERS

This policy shall apply to, but not be limited to, the following **categories of consumers**

- (a) Residential consumers
- (b) Business consumers
- (c) Non-governmental organisations for profit and non profit
- (d) Educational institutions for profit and non profit
- (e) Religious institutions
- (f) National, provincial and local government
- (g) State owned entities
- (h) Any other category of consumers as determined by the municipality from time to time

Different application forms for different categories of customers may be prescribed.

5. CATEGORIES OF USAGE OF PROPERTIES

The usage of properties will be determined in terms of the zoning of property as approved in terms of Town Planning Scheme and may include, but not be limited to:

- (a) Residential properties;
- (b) Industrial properties;
- (c) Business and commercial properties;
- (d) Farm properties used for –
 - (i) agricultural purposes;
 - (ii) residential purposes
 - (iii) Industrial purposes;

- (iv) business and commercial purposes; or
- (v) purposes other than those specified in sub paragraphs (i) to (iv);
- (e) Smallholdings used for –
 - (i) agricultural purposes;
 - (ii) residential purposes
 - (iii) Industrial purposes;
 - (iv) business and commercial purposes; or
 - (v) purposes other than those specified in sub paragraphs (i) to (iv);
- (f) State-owned properties;
- (g) Municipal properties;
- (h) Public service infrastructure;
- (i) Public service purpose properties;
- (j) Privately owned towns serviced by the owner;
- (k) Formal and informal settlements;
- (l) State trust land;
- (m) Protected areas;
- (n) Properties on which national monuments are proclaimed;
- (o) Properties owned by public benefit organizations and used for any specific public benefit activities listed in Part 1 of the Ninth Schedule to the Income Tax Act; or
- (p) Properties used for multiple purposes.

6. CATEGORIES OF SERVICE

Customers may apply for any of the following services, where the necessary service infra-structure already exists, or are in the process of being installed:

- (a) Water provision
- (b) Sewerage
- (c) Electricity
- (d) Refuse removal services
- (e) Other services - Any other service rendered by council.

7. STANDARD TERMS AND CONDITIONS

Every customer agreement must contain standard terms and conditions covering at least the following aspects:

(i) General terms and conditions

- (a) The Applicant must apply to the City of Ekurhuleni for the supply of the services stipulated in the application form.
- (b) The Municipality must have jurisdiction and control over the property to which the agreement relates and the applicant must accept responsibility for the payment of all amounts due for such services.
- (c) The Applicant must warrant that in the case where a change of ownership of the property has taken place, an electrical compliance certificate had been obtained.
- (d) Failure to receive an account statement, for whatever reason, does not exempt the customer from payment thereof.

- (e) The Applicant must undertake to notify the Municipality in writing should an account for services rendered not be received within one month after the closing date of the period in which those services were rendered.
- (f) The Applicant must state the date of intended occupation of the property where the service applied for is required.

(ii) Management of accounts

- (a) The Municipality may in terms of the Municipal Systems Act-
 - (i) consolidate any separate accounts of the Applicant;
 - (ii) credit a payment by the Applicant against any account of the Applicant; and
 - (iii) implement any of its debt collection and credit control measures in relation to any arrears on any of the accounts of the Applicant.
 - (iv) credit a payment to any debt of the applicant.
- (b) The Municipality may appropriate all payments on outstanding accounts in the order as set out in Credit Control Policy.
- (c) The Municipality may –
 - (i) with the consent of the Applicant, enter into an agreement with the Applicant's employer to deduct from the salary or wages of the Applicant –
 - (aa) any outstanding amounts due by the Applicant to the Municipality; or
 - (bb) such regular monthly amounts as may be agreed; and
 - (ii) provide special incentives for –
 - (aa) employers to enter into such agreements; and
 - (bb) employees to consent to such agreements.

(iii) Disputed accounts

- (a) When there is a dispute between the Municipality and a customer over a specific amount claimed by the Municipality, the customer must make written representations to the Council in terms of which he/she may dispute the correctness of the account.
- (b) The representations contemplated in paragraph (a) must contain the following:
 - (i) the reasons for the objection; and
 - (ii) a request that the relevant meters (if any), be tested.
- (c) The representation must be accompanied by the payment of an amount equal to –
 - (i) the cost of testing the relevant meters; and
 - (ii) the average amount that was due and payable during the preceding three months; or
 - (iii) in cases where there exists no account history, or the amount has been in dispute for several months, an amount equal to an amount prescribed by Council, from time to time, shall be payable.
- (d) The Municipality must register the representations and provide the customer with a reference number.
- (e) The Municipality must –

- (i) investigate or cause the representations to be investigated within 14 days, or as soon as possible after the query or complaint was registered; and
- (ii) inform the Applicant, in writing, of its finding as soon as possible thereafter, whereupon any arrears found to be due must be paid within 7 days from the date on which the Applicant is notified of the amount found to be due and payable.
- (f) Should the customer disagree with the finding of the Municipality, he/she may appeal in writing to the municipality within 21 days of the notification of the decision.
- (g) The customer must state the reasons for his/her appeal.
- (h) The municipality must consider the appeal, and confirm, vary or revoke the decision, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.

(iv) *Charging for services and meters*

- (a) Services supplied by the Municipality to a customer shall be paid for by the customer at the rate and date determined by the Council for that particular service.
- (b) A customer shall be responsible for the payment for all services supplied to the premises of the customer from the date on which the service must commence in terms of the consumer agreement, until the date of termination thereof.
- (c) All meters shall remain the property of the Municipality. Breakage, new installation or repairs due to mismanagement by customer are for the customer's account.
- (d) Any tampering or bridging out of meters shall constitute a criminal offence.
- (e) Free and unrestricted access to the meters must be available at all reasonable times. If access is not available or denied, services may be discontinued after due notice or additional levies may be imposed.
- (f) Interim levy, based on deemed consumption, will be raised in the event that no consumption reading, for whatever reason, is obtained during reading cycle.

(v) *Claim that payment has been made*

No claim that a payment has been made shall be entertained, unless such a claim is supported by a valid receipt for the particular amount and account, issued by the Municipality or one of its official third party pay points.

(vi) *Interest*

Interest at the applicable rate prevailing from time to time, calculated per month or part thereof must be charged on arrear amounts and may be made payable from the date on which the payment of the account became due.

(vii) Attorney and own client costs

In the event of the Municipality instituting legal proceedings against a customer, arising out of the breach of any term or condition of this agreement, the customer shall be liable to pay attorney and own client costs, debt collection costs; including the costs of any tracing fees, in respect of such proceedings.

(viii) Reduction, suspension or termination of services

The Municipality may reduce, suspend or terminate the services to a customer in terms of its credit control and debit collection policy, if the customer fails to –

- (a) pay an account; or
- (b) comply with the conditions of the agreement; or
- (c) make representations to the Municipality explaining the reasons for the default.

(ix) Termination of customer agreement

- (a) A customer may terminate the customer agreement by giving the Council not less than 7 calendar days' notice in writing. It must be noted that transfer of ownership of the property does not amount to a notice of termination of services or of this agreement.
- (b) The Council may terminate this agreement (on notice of not less than 7 days) if:
 - (i) the customer has not consumed any services during the preceding 6 months;
 - (ii) the customer has committed a breach of the agreement or the by-laws, and has failed to rectify such breach within 48 hours after being required in writing by the Municipality to do so; or
 - (iii) the customer receives the supply of water or electricity from another authority by virtue of an arrangement between the Municipality and such authority.
- (c) The Municipality may, without notice, terminate the consumer agreement for supply of water and electricity if a customer has vacated the premises to which such consumer agreement relates, and failed to make arrangements to the satisfaction of the Municipality for the continuation of the consumer agreement for supply of water and/or electricity.
- (d) If the customer is also the owner of the property concerned, the customer will remain responsible for any consumption of service and /or levies on the property until a valid new customer agreement has been entered into.
- (e) If the consumer of services, other than the owner, terminates the agreement, the service will automatically be transferred back to the owner of the property.

(x) Consent to jurisdiction of the Magistrate's Court

- (a) The Applicant must consent to the jurisdiction of the Magistrate's Court in terms of section 45 of the Magistrate's Court Act, 1944 (Act 32 of 1944), as amended, in respect of any action which the Council may institute against him/her arising out of this agreement: Provided that the Municipality shall, notwithstanding the

above, have the right to proceed with any such action in any competent court of law.

- (b) The Applicant's attention shall be drawn to the fact that the standard terms and conditions are subject to National, Provincial and Local legislation with regard to Local Government.

8. INFORMATION TO BE FURNISHED WITH APPLICATION FOR SERVICE

Every person who applies for a service must indicate the relationship between him/her and the property where the service is required, namely, whether he/she is—

(i) Individuals

- the owner - If the Applicant is the owner :
 - a copy of the deed of transfer containing the date of registration should accompany application.
 - certified copy of the Identity Documents of registered owners.
 - In the case of new connection, a certificate of occupation and an electricity approval certificate when application is made for the connection of electricity.
 - In the case of an existing connection, an electricity compliance certificate when application is made for the connection of electricity.
- the tenant - If the Applicant is the tenant :
 - a copy of the lease / rental agreement shall accompany application,
 - who is renting the property from a person/company who is not the owner of the property, he/she must submit a copy of the agreement between him/her and that person/company,
 - written permission from the owner/agent to supply services to the tenant.
 - certified copy of the Identity Documents of registered owners and tenants.
 - an electricity compliance certificate when application is made for the connection of electricity.
 - In the case of minors, the prescribed written consent and undertaking by the legal parent/guardians, and a copy of their ID documents.

(ii) Business or Legal Entity

If the applicant is a business or legal entity –

- the application must be supported by a copy of the resolution of the business entity in which the application for the service is authorized.
- Copy of registration at Registrar of Companies not older than six months.
- Copy of the VAT registration certificate not older than six months.
- Copy of Identity Document of person authorized to open account.
- a copy of the deed of transfer containing the date of registration should accompany application if applicant is the owner of property
- written permission from the owner/agent to supply services to the tenant if applicant is not owner of property.

(iii) Government, Provincial Government, Municipality.

- The name of the entity, plus the name and contact details of the Chief Accounting Officer of the entity must be supplied;
- a copy of the deed of transfer containing the date of registration should accompany application if applicant is the owner of property
- written permission from the owner/agent to supply services to the tenant if applicant is not owner of property.

Other Details that will be requested to be furnished may include, but not be limited to:

- Contact details of applicant
- Physical address of applicant
- Postal Address of applicant

9. DECLARATION

The application form must contain a declaration stating the following:

(i) Deposit

The applicant acknowledges that –

- (a) Deposit made by a customer is refundable, free of interest, on termination of the supply of services, provided that all outstanding amounts have been settled in terms of the property.
- (b) Deposit shall be forfeited to the Council if not claimed in writing by the customer within 12 months of the termination of all services.
- (c) The customer must notify the office of the Chief Financial Officer of any change of address in order to facilitate the refund of the deposit.

(ii) Terms and Conditions of supply

The Applicant confirms that he/she has read and agrees to the terms and conditions of supply of the services applied for as set out in application, and those laid down in the by-laws of the Municipality as well as any other applicable laws and policies

(iii) Correctness of Information furnished in application.

The applicant must certify that the information furnished in the application form is in all aspects true and correct.

10. PHASING OUT OF TENANT ACCOUNTS

- i. With effect from 1 July 2017, accounts will be registered in name of owners of property only.
- ii. Existing “Residential” tenant accounts as at 1 July 2017, will be phased out over period of eighteen months.
 - a. Property owners to be informed in writing of all linked active “tenant” accounts.

- b. Property owners to arrange for closure of existing tenant accounts and full payment of tenant debt or alternatively, on written application of owner, transfer of tenant debt to consolidated owners account by 31 December 2018. Deposit value as applicable to linked tenant accounts to be raised against owner account.
- c. All services in respect of property owners not complying with (b) by 31 December 2018, to be disconnected and owners informed in writing of closure of linked tenant accounts. All services to be transferred administratively to consolidated owners account. Reinstatement of services will require owner to enter into new service level agreement and payment of deposit at promulgated rate.
- d. Formal tenant debt repayment arrangements as at 31 December 2018 will remain in force until redeemed in full.
- iii. Tenant accounts, on written request by property owner, be allowed in respect of "Business" related property categories as reflected in published valuation roll.
- iv. Tenant accounts, be allowed in respect of Government, Provincial or Municipal debtor groups.
- v. Registered Indigents and child headed households – Residential Tenant accounts be allowed in instances where property occupant qualifies for indigent support in respect of Indigent support policy and administrators of child headed households.
- vi. Residential Tenant accounts, be allowed in respect of accounts under legal administration, liquidation, sequestration or deceased estates.
- vii. In relation to business and government tenant accounts, account administration fee in addition to linked services may be levied to recover costs of additional administration. This to be implemented as from 1 January 2019.

11. FRAUD, THEFT AND OTHER CRIMINAL ACTIVITY

- (a) Subject to applicable legislation, the Council may refuse to enter into consumer agreement to a consumer who is found guilty of fraud, theft or any other criminal offence, or, where it is evident that such criminal offence has occurred, until such time as the total costs, penalties, other fees, illegal consumption and any applicable tariffs and rates due to the Council have been paid in full.
- (b) Illegal connection, reconnection or tampering with a service supply of Council is considered a criminal offence which will result in legal actions being taken and the immediate cancellation of user agreement between council and consumer.
- (c) Council reserves the right to refuse service agreement with tenant where illegal connection, reconnection or tampering with service supply has been identified and as such will only consider new consumer agreement with owner of property.

12. SHORT TITLE

This policy shall be called the Consumer Agreement Policy of the City of Ekurhuleni.



IDP and BUDGET

2018/19 - 2020/21



Annexure D19

SUPPLY CHAIN MANAGEMENT POLICY

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1.1 ADOPTION OF SCM POLICY

- 1.1.1 The Municipal Supply Chain Management (MSCM) Regulations provide that:
- 1.1.1.1 Regulation 3(1) states that the Accounting Officer (AO), who is the City Manager (CM) of the municipality shall:
- 1.1.1.2 promptly prepare and submit a draft supply chain management (SCM) policy, complying with MSCM Regulation 2 to the Council for adoption
- 1.1.1.3 at least annually review the implementation of the policy, and
- 1.1.1.4 when the CM considers it necessary, submit proposals for amendment of the policy to the Council.
- 1.1.2 Regulation 3(2) states that:
- 1.1.2.1 the CM may use any Treasury guidelines determining standards for municipal SCM policies and submit to Council that standard or a modified version thereof, as a draft policy
- 1.1.2.2 if the CM submits a draft policy to the Council that differs from the (National Treasury's) guideline standard, the CM shall ensure that such draft policy complies with Regulation 2.
- 1.1.2.3 the CM shall report any deviation from the guideline standard to the National Treasury and the relevant Provincial Treasury.
- 1.1.2.4 Regulation 3(3) states that when preparing or amending its SCM policy, the municipality shall take account of the need for uniformity in SCM practices, particularly to promote accessibility of SCM systems for small businesses.
- 1.1.3 Regulation 3(4) states that the CM shall in terms of section 62(1)(f)(iv) of the MFMA take all reasonable steps to ensure that the Municipality has and implements a SCM policy as set out in Regulation 2.

Recommended by

City Manager

Date:

**Approved by the
Council of City of
Ekurhuleni**

Council Resolution No:

Date:

Version No

Effective date _____

Document Summary **This document consists of the SCM Policy of City of Ekurhuleni as approved by Council on the date specified above.**

Next revision date _____

1.2 REVIEW OF SCM POLICY

- 1.2.1 The approved supply chain management (SCM) policy shall be reviewed at least annually to ensure that it is aligned to applicable legislation and regulations.
- 1.2.2 Following each review, if the SCM policy requires updating, the CM shall submit an updated draft policy to Council for adoption.

1.3 AMENDMENT HISTORY

Table 1

| No | Amendment reference | Effective date | Section | Paragraph | Short description |
|-----------|----------------------------|-----------------------|----------------|------------------|--------------------------|
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1.4 DISTRIBUTION OF SCM POLICY

- 1.4.1 All changes shall be distributed to relevant SCM role players.
- 1.4.2 After changes have been made, updated hard copies and electronic copies (posted on the Intranet) of the document shall be sent at least to the following EMM officials:
- 1.4.3 City Manager
- 1.4.4 Heads of Departments
- 1.4.5 Directors
- 1.4.6 Senior officials and project managers
- 1.4.7 Members of Bid Committees.
- 1.4.8 All supply chain officials.
- 1.4.9 All EMM employees who specifically need to be informed of the changes.

1.5 APPLICABILITY OF SCM POLICY

- 1.5.1 This policy is applicable to the EMM and all EMM's SCM activities shall be executed in line with this policy.
- 1.5.2 The policy shall also apply to EMM's Entities, once adopted by the Board of Directors of each such Entity.
- 1.5.3 In terms of Municipal SCM Regulation (2), where Entities have their own SCM policy, such policy shall be consistent with this EMM SCM policy.

1.6 TRANSGRESSION OF SCM POLICY

- 1.6.1 Any EMM official, who acts contrary to any provision of this policy, shall be subject to disciplinary action in line with EMM's Disciplinary Policy.

SECTION 2 TERMINOLOGY

2.1 ABBREVIATIONS

Table 2

| ABBREVIATION | MEANING |
|------------------|--|
| AG | Auditor-General |
| CM | Accounting Officer – (known in EMM as the City Manager) |
| B-BBEE | Broad Based Black Economic Empowerment |
| B-BBEE Act | Broad Based Black Economic Empowerment Act, Act No. 53 of 2003. |
| BEE | Black Economic Empowerment |
| CFO | Chief Financial Officer |
| CIDB | Construction Industry Development Board |
| CM | City Manager |
| DTI | Department of Trade and Industry |
| GCC | General Conditions of Contract |
| IDP | Integrated Development Plan |
| IT | Information Technology |
| ITC | Information to Consultants |
| LCC | Life Cycle Costing |
| MFMA | Municipal Finance Management Act, Act No. 56 of 2003. |
| MSA | Municipal Systems Act, Act No. 32 of 2000. |
| MSCM Regulations | Municipal Supply Chain Management Regulations of 2005 |
| MTREF | Medium Term Revenue and Expenditure Framework |
| NIPP | National Industrial Participation Programme |
| PCCA | Prevention and Combating of Corrupt Activities Act, Act No. 12 of 2004 |
| PPP | Public-Private Partnership |
| PPFPA | Preferential Procurement Policy Framework Act, Act No. 5 of 2000 |
| QBS | Quality Based Selection |
| QCBS | Quality and Cost Based Selection |
| RFI | Request for Information |
| RFP | Request for Proposal |
| RFQ | Request for Quotation |
| SAPS | South African Police Services |
| SARS | South African Revenue Services |
| SCM | Supply Chain Management |
| SCM Unit | Supply Chain Management Unit |
| SITA | State Information Technology Agency |
| SLA | Service Level Agreement |
| TCO | Total Cost of Ownership |
| TOR | Terms of Reference |
| WIP | Work in Process |

2.2 DEFINITIONS

Table 3

| TERM | DEFINITION |
|---|--|
| Accountability | The personal responsibility of a person to his senior or higher authority for any act or omission in the execution of his assigned duties (accountability cannot be delegated). |
| Accounting | Means the recording of all receipts and issues and continued recording thereof |
| Accounting officer | Also the City Manager and means the municipal officer referred to in section 60 of the MFMA |
| Acquisition management | <p>The process of procurement of goods, works and services and includes the:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Identification of preferential policy objectives; <input type="checkbox"/> Determination of market strategy; <input type="checkbox"/> Application of depreciation rates; <input type="checkbox"/> Application of total cost of ownership principle; <input type="checkbox"/> Compilation of quotation/bid documentation, including conditions; <input type="checkbox"/> Determination of evaluation criteria; <input type="checkbox"/> Publishing of quotes/bids <input type="checkbox"/> Receiving and opening of quotes/bids <input type="checkbox"/> Evaluation of quotes/bids and tabling of recommendations; <input type="checkbox"/> Award of quotes/bids <input type="checkbox"/> Negotiations <input type="checkbox"/> Compilation and signing of contract documents <input type="checkbox"/> Access to information <input type="checkbox"/> Contract administration. |
| Asset | <p>It is a resource controlled by the municipality as a result of past events and from which future economic benefits or service potential is expected to flow to the municipality. It has the following characteristics:</p> <ul style="list-style-type: none"> <input type="checkbox"/> It possesses service potential or future economic benefit that is expected to flow to the municipality. <input type="checkbox"/> It is controlled by the municipality. <input type="checkbox"/> It originates as a result of a past transaction or event. |
| <u>Asset Controller</u> | A person delegated to be in charge of a division/section and to whom non-consumable items are issued. The asset controller will be held responsible for these items, until such times as they are returned to store or are disposed of. The asset controller may appoint sub asset holders. |
| Authority | Authority is the right or power attached to a rank or appointment permitting the holder thereof to make decisions, to take command or to demand action by others. |
| Broad Based Black Economic Empowerment | Means the economic empowerment of all black people including women, workers, youth people with disabilities and people living in rural areas through diverse but integrated socio-economic strategies that include, but are not limited to: |

| TERM | DEFINITION |
|--|--|
| | <ul style="list-style-type: none"> <input type="checkbox"/> Increasing the number of black people that manage, own and control enterprises and productive assets. <input type="checkbox"/> Facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises. <input type="checkbox"/> Human resource and skills development. <input type="checkbox"/> Achieving equitable representation in all occupational categories and levels in the workforce. <input type="checkbox"/> Preferential procurement. <input type="checkbox"/> Investment in enterprises that are owned or managed by black people. |
| Chief Financial Officer | A Chief Financial Officer means a person designated in terms of MFMA section 80(2)(a) |
| Community or broad-based enterprise | Has an empowerment shareholder who represents a broad base of members such as a local community or where the benefits support a target group for example black women, people living with disabilities, the youth and workers. |
| Close family member | Close family member of a person means the spouse, child or parent of a person in the service of the state or who has been in the service of the state in the previous twelve months. |
| Combative practices | <p>Practices that include but are not limited to:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Suggestions to fictitious lower quotations <input type="checkbox"/> Reference to non-existent competition <input type="checkbox"/> Exploiting errors in bids <input type="checkbox"/> Soliciting bids from bidders whose names appear on the list or restricted bidders/suppliers/persons. |
| Competitive bid | Means a bid in terms of a competitive bidding process |
| Competitive bidding process | Means a competitive bidding process referred to in MSCM Regulation 12(1)(d) |
| Construction industry | Means the broad conglomeration of industries and sectors which add value in the creation and maintenance of fixed assets within the built environment. |
| Construction procurement | Procurement in the construction industry including the invitation, award and management of contracts. |
| Construction works | Means the provision of a combination of goods and services arranged for the development, extension, installation, repair, maintenance, renewal, removal, renovation, alteration, dismantling or demolition of a fixed asset including building and engineering infrastructure. |
| Cooperatives | <p>A (primary) co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise.</p> <p>A secondary co-operative is a co-operative formed by two or more primary co-operatives to provide services to its members. The purpose of</p> |

| TERM | DEFINITION |
|---|---|
| | a secondary co-operative is to help primary enterprises serve their members more effectively and comprehensively. They provide services such as auditing, training, bookkeeping and advisory support. Primary and/or secondary co-operatives may form a tertiary co-operative representing a specific sector or regional area. |
| Current asset (inventory-perishable goods) | An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date. |
| Days | In this policy, unless otherwise specified, days refers to “working days” |
| <u>Deficiency</u> | where stock is counted during a stock take of stores/asset and the total is physically less than is reflected on the relevant ledger/ tally card or asset record, and the cause of the deficiency cannot be identified at that stage. After accountability has been determined, such deficiency is to be classified as a loss. |
| <u>Delegating Officials</u> | A person in control of an organisational entity delegating responsibility for specific functions to lower level within the organization, the delegation thereby creating accountability. |
| <u>Delegation</u> | The assignment of responsibility and authority from higher to lower organizational level. |
| <u>Demand Management:</u> | Demand Management ensures that resources required to support the strategic objectives are delivered at the correct time, at the right price, location, quantity and quantity that will satisfy the needs. |
| <u>Duty</u> | Is the obligation resting on an individual to carry out a task/order that has been assigned to him. |
| Depreciation | Depreciation refers to the reduction in the value of assets generally from wear and tear. The consumption of capital is recognised as a cost of production and an allowance for this is made before net profit is arrived at. |
| Designated sector | A sector, sub-sector or industry that has been designated by the Department of trade and Industry in line with national development and industrial policies for local production, where only locally produced services, works or goods or locally manufactured goods meets the stipulated minimum threshold for local production and content. |
| <u>Discrepancies</u> | The difference discovered during a stores/asset stock-take where the stores/assets physically counted is more or less than the quantity reflected on the relevant ledger/tally card or asset record. |
| <u>Disposal Committee</u> | Committee constituted to inquire into, and make recommendations concerning the disposal of, obsolete, redundant or unserviceable stores/assets. |
| <u>Disposal Management</u> | Disposal Management is responsible to ensure that all unserviceable, redundant or obsolete assets are subjected to a formal process of doing away with moveable assets in a cost effective, but transparent and responsible manner. It also entails the maintenance of records and records as prescribed. |

| TERM | DEFINITION |
|---|--|
| Emergency procurement | An emergency procurement process will only apply in serious, unexpected and potentially dangerous circumstances which require immediate rectification: <input type="checkbox"/> In the event of a threat or interruption in CP ability to execute its mandate <input type="checkbox"/> In the event of an immediate threat to the environment or human safety |
| <u>Expendable Stores</u> | Relatively cheap items where the administration costs of recording after issuing are not cost effective, or where some lose their identity in the process of utilization and are approved by the Accounting Officer as Consumable Accounting |
| Final award | In relation to bids or quotations submitted for a contract, means a final decision accepting the bid or quotation. |
| <u>Financial year</u> | The period from 1 July in any year to 30 June in the ensuing year |
| Formal written price quotation | Means quotations referred to in MSCM Regulation 12(1)(c). |
| Fruitless and wasteful expenditure | Means expenditure which was made in vain and would have been avoided had reasonable care been exercised. |
| <u>Function</u> | A function is a number of related tasks, duties or activities, which contribute to the realisation of a specific objective (Grouping of activities of initial receipt and external issue of stores in the function of "Transit" |
| <u>Functionary</u> | A person handling stores at the lowest functional level of activity, and who, organizationally, resorts under a specific cost centre manager. |
| <u>Head of the SCM Unit</u> | It is the official delegated by the Accounting Officer to be responsible for the organizational function of Supply Chain Management at the EMM. He or She is to delegate responsibilities to his/her sub-ordinate in terms of the SCM functions |
| Immovable assets | Immovable assets consist of: a) Tangible assets, namely land, subsoil assets, and water resources; and b) Fixed structures, namely bridges, houses, office buildings, roads, etc. |
| Imported content | That portion of the tender price represented by the cost of components, parts or materials which have been or are still to be imported (whether by the supplier or its sub-contractors) and which costs are inclusive of the costs abroad, plus freight and other direct importation costs, such as landing costs, dock dues, import duty, sales duty or other similar tax or duty at the South African port of entry. |
| In the service of the state | Means to be: <input type="checkbox"/> A member of <ul style="list-style-type: none"> ■ Any municipal council, ■ Any provincial legislature; or ■ The National Assembly or the National Council of Provinces. <input type="checkbox"/> A member of the board of directors of any municipal entity |

| TERM | DEFINITION |
|------------------------------------|---|
| | <input type="checkbox"/> An official of any municipality or municipal entity <input type="checkbox"/> An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Public Finance Management Act, 1999 (Act No 1 of 1999). <input type="checkbox"/> A member of the accounting authority of any national or provincial public entity; or <input type="checkbox"/> An employee of Parliament or a provincial legislature. |
| Intangible assets | Intangible assets are trademarks, licenses and/or the legally enforceable rights associated with copyright and patents. |
| Inventories | Including stock and stores (consumable stores, maintenance materials, spare parts, WIP, education/training course materials, client services). Properties/land held for sale. Strategic stocks (fuel supplies, precious stones and metals). Seized or forfeited property. |
| <u>Irrecoverable Losses</u> | This is in the case of Vis major, or where a person does not forfeit his/her cover in terms of the relevant Treasury Instruction and the loss is written off against the EMM. |
| Irregular expenditure | <p>In relation to a municipality or municipal entity, means -</p> <p>(a) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;</p> <p>(b) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;</p> <p>(c) Expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act 20 of 1998); or</p> <p>(d) Expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the policies of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,</p> <p>But excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".</p> |
| <u>Issue</u> | The physical act of handing over stores, on submission of a requisition (demand) that has been signed by an authorized person. |
| <u>Issue Voucher</u> | An approved voucher for recording all issue |
| Lifecycle costing | Lifecycle costing is a technique developed to identify and quantify all costs, initial and on-going, associated with a project, asset or installation |

| TERM | DEFINITION |
|---|--|
| | over a given period. Thus, it is a tool that forecasts the total cost of a purchase throughout its predetermined lifecycle. |
| Limited bidding | Where the competition is limited in one way or another. Limited bidding is reserved for a specific group or category of possible providers. |
| List of accredited prospective providers | Means the list of accredited prospective providers which a municipality shall keep in terms of MSCM regulation 14 |
| Local content | That portion of the tender price which is not included in the imported content, provided that local manufacture does take place |
| Long term contract | Means a contract with a duration period exceeding one year |
| <u>Manager</u> | A person in control of an organisational entity, consisting of a number of functionaries |
| Movable assets | Movable assets are assets that can be moved (e.g. machinery, equipment, vehicles, aircraft, engines and motors). All inventories and valuables and most non-current assets belong to this category |
| Net present value (NPV) | The sum that results when the discounted value of the expected costs of an investment are deducted from the discounted value of the expected returns. If the NPV is positive the project in question is potentially worth undertaking. |
| Obsolete | No longer produced or used, out of date, to become obsolete by replacing it with something new. |
| Official | Official means: <input type="checkbox"/> An employee of a municipality; <input type="checkbox"/> A person seconded to the municipality to work as a member of the staff; <input type="checkbox"/> A person contracted to work as a member of the staff otherwise than as an employee. |
| <u>Organ of State</u> | Is defined in the RSA Constitution of 1996, as follows (a) any department of state or administration in the national, provincial or local sphere of government; or (b) any other functionary or institution- (i) exercising a power or performing a function in terms of the Constitution or a provincial constitution; or (ii) exercising a public power or performing a public function in terms of any legislation, but does not include a court or a judicial officer |
| Other applicable legislation | Means any other legislation applicable to municipal supply chain management, including: a) The PPPFA of 2000 b) The B-BBEEA of 2003 c) The CIDB Act of 2000. |

| TERM | DEFINITION |
|---|--|
| Receipts | All stores and services received/ irrespective of the means by which they are purchased, transferred, produced, manufactured, donated or acquired. |
| <u>Receipt Voucher/ Goods Receipt Note</u> | An approved voucher that is complete to record receipt. |
| Redundant | No longer needed or useful, superfluous (unnecessary). |
| Repairable | Term applicable to assemblies with detail parts breakdown that are economically repairable, and in the normal course of operation are continually returned to a fully serviceable condition over a period less than the life of the end item to which they are related. These assemblies possess economic value either in a serviceable or unserviceable condition until they are declared no longer of value for operation because of obsolescence of themselves, or of the end item to which they are related, or because these assemblies are no longer repairable. |
| <u>Requisition</u> | An approved voucher that is completed in order to record all internal demands, or purchases. |
| Responsibility | The obligation imposed on an individual to properly exercise the authority vested in him/her. This involves the power to command and to demand action in the proper execution of the relevant duties (responsibility may be delegated). |
| Retention | Retention is an amount of money retained for a certain period to offset costs which may arise from the contractor's failure to comply fully with the contract. |
| Stipulated minimum threshold | That portion of local production and content as determined by the DTI |
| Stores/stock | All movable state property/assets that are kept in stock for issue purposes. |
| Total cost of ownership | The sum of direct spend, related spend, process spend and opportunity cost associated within a specific commodity and service. |
| Treasury guidelines | Means the guidelines on SCM issued by the Minister in terms of section 168 of the MFMA. |
| Unserviceable | The condition of an item that is no longer suitable for use and which cannot be economically repaired. |
| Written or verbal quotations | Means quotations referred to in the MSCM Regulation 12(1)(b). |

SECTION 3 SCM STRATEGY, EMPOWERMENT STRATEGY AND SCM POLICY

3.1 VISION AND MISSION

3.1.1 The Vision of SCM is as follows:

3.1.1.1 “In being a professional, transformative SCM unit, we exceed our customers’ expectations and deliver a customer-centric, effective and efficient service every time”

3.1.2 The SCM Mission is:

3.1.2.1 “To develop a strategy business partner who continuously strive to ensure a modern, transparent and pro-active service through unquestionable compliance to policies, delivering value for money.”

3.2 SCM STRATEGY

3.2.1 EMM shall on an annual basis develop and adopt a SCM strategy, including strategic SCM business objectives, key performance indicators, annual or multi- year targets, strategic SCM programmes which will include initiatives and targets to support the achievement of EMM’s targeted procurement and core business objectives.

3.2.2 Taking into consideration the abovementioned SCM strategy, EMM will simultaneously develop an implementation plan to give effect to the approved strategy. The implementation plan will form a part of the SCM strategy.

3.2.3 The annual SCM strategy shall be developed by the SCM Division in conjunction with user departments and other relevant role-players in SCM.

3.2.4 The developed strategy shall be submitted to the CM for his consideration and recommendation to Council for approval, prior to the commencement of each new financial year.

3.3 UNBUNDLING STRATEGY AND PRE-QUALIFICATION FOR PREFERENTIAL PROCUREMENT

3.3.1 Small enterprises can participate in one of two ways in procurement, i.e. by contracting directly with a contracting authority or as sub-contractors.

3.3.2 EMM may decide to apply prequalifying criteria for preferential procurement to advance as subcontractors, small enterprises controlled by designated groups.

3.3.3 If EMM decides to apply the pre-qualifying criteria as contemplated in paragraph 3.3.2 above, a tender shall be advertised with a specific tendering condition that only one or more of the following tenderers may respond –

3.3.3.1 a tenderer subcontracting a minimum of 30% to –

3.3.3.2 an EME or QSE which is at least 51% controlled by black people;

3.3.3.3 an EME or QSE which is at least controlled by black people who are youth;

3.3.3.4 an EME or QSE which is at least controlled by black people who are women;

3.3.3.5 an EME or QSE which is at least controlled by black people with disabilities;

- 3.3.3.6 an EME or QSE which is at least controlled by black people living in rural or underdeveloped areas or townships;
- 3.3.3.7 a co-operative which is at least 51% controlled by black people
- 3.3.3.8 an EME or QSE which is at least controlled by black people who are military veterans.
- 3.3.4 For contracts above a value which EMM may in its discretion determine, EMM may decide to include in the bid documents a condition that tenderers who are prime contractors, be required to unbundle and subdivide their contracts into smaller contracts and procure the services of small enterprises controlled by any of the designated groups contemplated in paragraphs 3.3.3.2-3.3.3.8 above.
- 3.3.5 Guidelines for premiums will be contained in SCM procedures.
- 3.3.6 SCM execution shall utilise unbundling as one of the SCM (acquisition) strategies.
- 3.3.7 The Council's guidelines on premiums shall apply to main and sub-contractors.
- 3.3.8 To give effect to the Council's Economic Development Strategy, a contract may be unbundled. This shall be done to accommodate Small Enterprise Development or to diversify in avoidance of concentration risk which EMM may be exposed to.
- 3.3.9 The principle of unbundling should be fair and applied with consistency.
- 3.3.10 Where unbundling is done to give effect to Enterprise Development, the allocation of the remainder of the contract shall be based on proportional system considering price and or scale of suppliers. The methodology shall be detailed in the procedures.

3.4 SUPPLY CHAIN MANAGEMENT POLICY

- 3.4.1 In terms of section 111 of the MFMA, this City of Ekurhuleni SCM Policy shall:
 - 3.4.1.1 Give effect to Section 217 of the Constitution; and Part 1 of Chapter 11 and other applicable provisions of the MFMA.
- 3.4.2 Be fair, equitable, transparent, competitive and cost effective.
- 3.4.3 Comply with:
 - 3.4.3.1 The regulatory framework prescribed in Chapter 2 of the MSCM Regulations, and
 - 3.4.3.2 Any regulations or guidelines that may be prescribed in terms of section 168 of the MFMA.
 - 3.4.3.3 Be consistent with other applicable legislation.
 - 3.4.3.4 Not undermine the objective for uniformity in SCM systems between organs of state in all spheres, and
 - 3.4.3.5 Be consistent with national economic policy concerning the promotion of investments and doing business with the public sector.
- 3.4.4 EMM shall not act otherwise than in accordance with this SCM policy when:
 - 3.4.4.1 Procuring goods or services.
 - 3.4.4.2 Disposing of goods no longer needed.
 - 3.4.4.3 Selecting contractors to provide assistance in the provision of municipal services other than in circumstances where Chapter 8 of the Municipal Systems Act applies.

- 3.4.4.4 The SCM policy shall also include relevant transformational priorities and programmes followed by the National Government and Gauteng Provincial Government (GPG).

3.5 EKURHULENI METROPOLITAN MUNICIPALITY'S ECONOMIC EMPOWERMENT STRATEGY

- 3.5.1 EMM commits to the social and economic transformation of South Africa by supporting objectives and initiatives captured in strategic national programmes such as B-BEEE and Preferential Procurement as well as in the Gauteng Provincial Government's (GPG) transformation programmes, such as:
- 3.5.1.1 Employment Growth and Development Strategy
 - 3.5.1.2 B-BBEE Strategy
 - 3.5.1.3 Co-operative Strategic Framework.
- 3.5.2 Other GPG programmes shall also be considered to guide and align the SCM outputs of EMM. Such programmes may include at least:
- 3.5.2.1 LED Framework
 - 3.5.2.2 Industrial Policy Framework
 - 3.5.2.3 In support of the above national and provincial programmes, EMM adopts the following transformational priorities:
 - 3.5.2.4 Preferential procurement with or without Pre-qualifying criteria.
 - 3.5.2.5 Local economic development
 - 3.5.2.6 Commodities designated and treatments recommended by GPG from time to time
 - 3.5.2.7 Promotion of SMME's and cooperatives
 - 3.5.2.8 Supplier development.
- 3.5.3 The SCM Division, supported by all EMM departments, shall pursue the above priorities, including related targets set annually by Council through the approval of SCM strategy, in their implementation of an EMM Targeted Procurement Strategy.
- 3.5.4 Annual targets shall be set for EMM and each Department, for at least the following groups:
- 3.5.4.1 B-BBEE enterprises with equitable gender participation
 - 3.5.4.2 Small B-BBEE enterprises with equitable gender participation
 - 3.5.4.3 Micro enterprises with equitable gender participation
 - 3.5.4.4 Black women owned enterprises
 - 3.5.4.5 Locally manufactured products
 - 3.5.4.6 Enterprises based within the EMM geographical area
 - 3.5.4.7 Products manufactured within the EMM geographical area
 - 3.5.4.8 Products manufactured in South Africa
 - 3.5.4.9 Youth empowerment
 - 3.5.4.10 People with disabilities (PwD).
- 3.5.5 EMM's SCM division in conjunction with the Economic Development Department and supported by all EMM departments shall proactively ensure that such targets are achieved and accurately reported upon, as and when required by EMM.
- 3.5.6 Once the list of prospective providers has been compiled per commodity, price quotations should be invited from the list.
- 3.5.7 The invitation of price quotations from the list per commodity should be done on a

rotational basis in such a manner that ongoing competition amongst providers is promoted.”

- 3.5.8 In order to facilitate targeted procurement in respect of bids in excess of R200 000 (VAT included), the following principles shall apply:
 - 3.5.8.1 Tenders may be advertised with a specific tendering condition that only one or more of the following tenderers may respond –
 - 3.5.8.1.1 a tenderer having a stipulated minimum B-BBBEE status level of contributor
 - 3.5.8.1.2 an EME or QSE
 - 3.5.8.1.3 EMM based bidders falling into any of the target groups contemplated in paragraphs 3.5.4. above.
- 3.5.9 Tenders in respect of goods and services falling within the Minthiro Ya Vula Vula programme shall contain a specific tendering condition that only EMM based bidders may respond.
- 3.5.10 A tender which fails to meet any pre-qualifying criteria stipulated in the tender documents is an unacceptable tender.
- 3.5.11 EMM shall make available the list of suppliers registered on a database approved by the National Treasury to provide the required goods or services in respect of the applicable designated groups from which the tenderer must select a supplier.

SECTION 4 PREFERENTIAL PROCUREMENT AND LOCAL PRODUCTION AND CONTENT

4.1 PREFERENCE POINT SYSTEM

- 4.1.1 The application of preferential procurement and broad based black economic empowerment shall be consistent with:
 - 4.1.1.1 The RSA Constitution
 - 4.1.1.2 The Municipal Finance Management Act and its Regulations.
 - 4.1.1.3 The Preferential Procurement Policy Framework Act and its Regulations.
 - 4.1.1.4 The Broad-based Black Economic Empowerment Act, its Strategy and Codes of Good Practice.
- 4.1.2 EMM shall stipulate the preference point system to be applied to each bid process in each bid document provided to bidders.
- 4.1.3 Bids shall include criteria for the evaluation of quotations/bids to identify the quotation/bid that represents the best value for money, taking also into account the total cost of ownership principle.
- 4.1.4 The PPPFA points system does not have to be applied in respect of acquisitions with a Rand value less than R30 000 per case (all applicable taxes included).
- 4.1.5 The relevant preference point formula as per the PPPFA shall be used to calculate the points for price in respect of acquisitions with a Rand value equal to, or above R30 000 and up to R50 million.

- 4.1.6 The maximum price score shall be allocated to the lowest priced acceptable bid/quote. Any other acceptable quotations/bids, which are higher in price, shall score fewer points on a pro rata basis, calculated on their prices in relation to the lowest acceptable quotation/bid in accordance with the prescribed formula.
- 4.1.6.1 The 80/20 preference points formula shall be used to calculate the points for price in respect of acquisitions with a Rand value equal to, or above R30 000, and up to a Rand value of R50 million with a maximum number points for price of 80.
- 4.1.6.2 The 90/10 preference points formula shall be used to calculate the points for price in respect of acquisitions with a Rand value above R50 million in terms of legislation with a maximum number points for price of 90.
- 4.1.7 A maximum of 20 or 10 points shall be allocated for B-BBEE.
- 4.1.8 Any other acceptable quotations/bids, which are higher in price shall score fewer points on a pro rata basis, calculated on their prices in relation to the lowest acceptable quotation/bid in accordance with the prescribed formula.

4.2 APPLICATION OF THE PREFERENCES

- 4.2.1 Preference points calculations and decisions, made during evaluations, shall be clear and documented.
- 4.2.2 The preference point system shall be applied as follows:

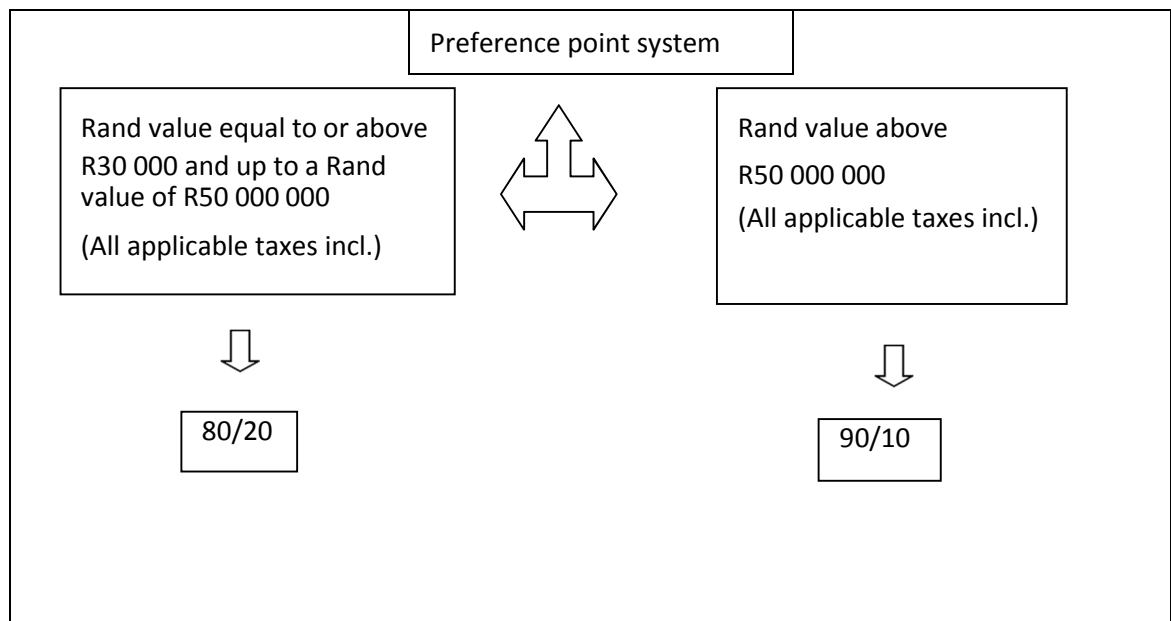


Figure 1

- 4.2.3 If all bids received exceed the estimated Rand value linked to the specified preference point system, the bid invitation shall be cancelled and re-invited, stating the correct preference points system to be applied.

4.3 LOCAL PRODUCTION AND CONTENT

- 4.3.1 In the case of sectors designated by the Minister of Trade and Industry, EMM shall advertise such tenders with a specific tendering condition that only locally produced goods, services or works or locally manufactured goods, with a stipulated minimum threshold for local production and content will be considered.
- 4.3.2 The following sectors/sub-sectors/industries have been designated by the Minister, to which the minimum thresholds for local content shall apply:

Table 4

| No | Sectors/sub-sector/industry | Minimum thresholds for local content |
|-----------|--|---|
| 1 | Buses (bus body) | 80% |
| 2 | Textiles, clothing, leather and footwear | 100% |
| 3 | Power Pylons | 100% |
| 4 | Canned/ processed vegetables | 80% |
| 5 | Pharmaceutical products: OSD Tender | 70% (volumes) |
| 6 | Rolling stock | 65% |
| 7 | Set top boxes | 30% |
| 8 | Furniture Products: | |
| | Office Furniture | 85% |
| | School Furniture | 100% |
| | Base and Mattress | 90% |
| 10 | Solar Water Heater Components | 70% |
| 11 | Electrical and telecom cables | 90% |
| 12 | Valves products and actuators | 70% |
| 13 | Residential Electricity Meter : | |
| | Prepaid Electricity Meters | 70% |
| | Post Paid Electricity Meters | 70% |
| | SMART Meters | 50% |

- 4.3.3 The designated sectors may be updated by the DTI over time and EMM shall therefore continually confirm the latest list of sectors designated so that such designations are complied with via the procurement process.
- 4.3.4 The designated sectors may be accessed at http://www.dti.gov.za/industrial_development/ip.jsp.
- 4.3.5 The standard bidding documents (MBD 6.2) must be completed in line with the requirements of the SABS approved technical specification number SATS 1286:2011 and the Guidance Document for the Calculation of Local Content together with the Local Content Declaration Templates (Annex C: Local Content Declaration - Summary Schedule, Annex D: Imported Content Declaration - Supporting Schedule to Annex C and Annex E: Local Content Declaration - Supporting Schedule to Annex C). All these documents are important for the calculation, measurement and verification of local content.
- 4.3.6 EMM shall also, as and when deemed appropriate, include as a specific tendering condition, that only locally produced services, works or goods or locally manufactured goods with a stipulated minimum threshold for local production and content, shall be

considered. However, such prescripts and thresholds shall always be in line with the specific directives issued by the National Treasury in consultation with the DTI.

4.3.7 Where necessary, for tenders referred to in 3.1 and 3.5 above, a two stage tendering process shall be followed, where the first stage involves functionality and minimum threshold for local production and content and the second stage for price and B-BBEE with the possibility of price negotiations only with short listed bidders.

4.3.8 Every tender issued in terms of PPPFA Regulation 9 shall be measurable and audited.

4.4 CO-OPERATIVES

4.1.1 EMM is committed to enhancing the co-operative sector, with due observance of the universally accepted definitions, principles and values central to co- operatives. To this end, it shall support established agencies, such as Gauteng Enterprise Propeller and similar enterprises (to be detailed in the guidelines), whose aim is promoting small businesses and co-operative enterprises.

4.1.2 The Co-operatives Act of 2005 and the Co-operative Banks Act of 2007 provide the legislative framework for promoting and regulating co-operatives.

4.1.3 A (primary) co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations, through a jointly owned and democratically controlled enterprise.

4.1.4 A secondary co-operative is a co-operative formed by two or more primary co- operatives to provide services to its members. The purpose of a secondary co- operative is to help primary enterprises serve their members more effectively and comprehensively. They provide services such as auditing, training, bookkeeping and advisory support.

4.1.5 Primary and/or secondary co-operatives may form a tertiary co-operative representing a specific sector or regional area.

4.1.6 Without limiting the number and variety of different kinds of co-operatives, other kinds and types of co-operatives include:

4.1.6.1 Housing co-operative

4.1.6.2 Workers' co-operative

4.1.6.3 Non-profit social co-operative

4.1.6.4 Agricultural co-operative

4.1.6.5 Financial services co-operative

4.1.6.6 Consumer co-operative

4.1.6.7 Marketing and supply co-operative

4.1.6.8 Transport co-operatives

4.1.6.9 Two **characteristics** distinguish co-operatives from other enterprises:

4.1.6.9.1 They are associations of people which agree to be the owners, the makers of democratic decisions and the users of their joint enterprise.

4.1.6.9.2 Their main purpose, as an economic unit, is to promote their members by rendering services, rather than maximising profits.

4.1.7 EMM shall support co-operatives by encouraging co-operatives to access EMM contracts via procurement processes. This is in support of Government's drive for co-operative enterprises that enable local people

SECTION 5 ETHICS

5.1 ETHICAL PRINCIPLES

5.1.1 EMM shall adhere to the procurement principles as noted hereunder.

| | |
|------------------------|--|
| Transparency | The procurement process shall be open and predictable and shall afford each prospective bidder timely access to the same and accurate information |
| Equal treatment | All bidders and providers shall be treated equally throughout the whole procurement process and shall be given access to the same information. |
| Effectiveness | EMM shall strive for SCM system effectiveness and shall carry out its procurement processes as cost-effectively as possible while meeting the commercial, regulatory and socio-economic goals of government in a balanced manner appropriate to the procurement requirement. |
| Efficiency | EMM shall strive to standardise and simplify procedures where appropriate to enhance SCM system effectiveness and shall carry out its SCM processes as cost-effectively and efficiently as possible. EMM shall strive to build relationships with providers, shall ensure good working practices and shall encourage innovative solutions for providers. |
| Competitiveness | EMM shall satisfy its requirements through competition unless there are justifiable reasons to the contrary. |
| Fairness | All bidders and contractors shall be dealt with fairly and without unfair discrimination. Unnecessary constraints shall not be imposed on bidders/contractors and commercial confidentiality shall be protected. |
| Ethics | All providers shall be treated equally whilst promoting certain empowerment objectives, all stakeholders shall conduct business and themselves professionally, fairly, reasonably and with integrity, all interests shall be disclosed and all breach shall be reported. Potential service providers will be subjecte to EMM vetting procedures. |
| Proportionality | The product/service requirements stipulated in the specification/terms of reference and the qualification requirements attached thereto shall be appropriate, necessary and in reasonable proportion to the product/service being procured. |

| | |
|---|--|
| Accountability | Each practitioner shall be accountable for their decisions and actions relative to their SCM responsibilities, the SCM process as well as in the implementation of concluded contracts. EMM shall have a system, when warranted by circumstances, to investigate and hold liable both employees and relevant private parties dealing with EMM, for their decisions and actions relative to their procurement responsibilities, the procurement process as well as in the implementation of concluded contracts. |
| Openness | EMM shall ensure a procurement process and a subsequent contract award and implementation according to the predetermined specification in line with the best practice procurement principles. |
| Value for money | <p>EMM shall achieve value for money through the optimum combination of whole life cost and quality (or fitness for purpose) to meet the customer's requirements while maximising efficiency, effectiveness and flexibility.</p> <p>EMM shall apply the following TCO philosophy to the procurement of goods and services in achieving value for money.</p> <p><input type="checkbox"/> $TCO = Price + Administration\ (maintenance\ and\ process) + Quality/Usage + Supplier\ Value-add.$</p> |
| Commitment to safety, health and the environment | <p>EMM is committed to the health and safety of its personnel and its providers in the application of its SCM process.</p> <p>EMM is committed to the preservation of the environment, minimising pollution and the improved use of natural resources in the application of its SCM processes and more specifically in the design of the specifications/terms of reference for each requirement.</p> <p>EMM shall apply preventative measures in situations of scientific uncertainty where a course of action could harm the environment.</p> |

5.2 ETHICAL DIRECTION

- 5.2.1 EMM commits itself to a policy of fair dealing and integrity in the conducting of its SCM activities.
- 5.2.2 All SCM officials and role players in the SCM system are required to promote:
 - 5.2.3 Mutual trust and respect.
 - 5.2.4 An environment where business can be conducted in a fair and reasonable manner and with integrity.
 - 5.2.5 All SCM officials should ensure that they perform their duties efficiently, and effectively, in accordance with the relevant legislation and regulations.
 - 5.2.6 EMM will abide by the EMM Code of Ethical Standards and the Code of Conduct for SCM practitioners and other role players as issued by National Treasury for municipalities and shall direct all SCM practitioners and role players in their conduct within and with EMM. Non-compliance with the Code by any SCM practitioner or role player may result in them being subjected to appropriate disciplinary action.
 - 5.2.7 A breach of the Code of Conduct of Conduct of the EMM shall be dealt with in terms of schedule 2 of the Local Government: Municipal Systems Act 32/2000.
 - 5.2.8 All bidders and contractors shall be made aware of the ethical standards of the EMM, its expectations of them and the consequences of breach or non- compliance. The application of these Standards by bidders the EMM does business with must be promoted and bidders will be subjected to ongoing vetting procedures to ensure compliance.

5.3 THE HIGHEST ETHICAL STANDARDS

- 5.3.1 All SCM practitioners and officials in the SCM system shall observe the highest ethical standards in regard to the performance of their duties. Ethics in this context refers to the concepts of honesty, integrity, probity, diligence, fairness, trust, respect and consistency.
- 5.3.2 An SCM Official must:
 - 5.3.2.1 Comply with the highest ethical standards
 - 5.3.2.2 Preserve the highest standard of honesty, impartially and objectivity.
- 5.3.3 An official of the SCM directorate, who becomes aware of a breach of or failure to comply with any aspect of the SCM system, shall immediately report the breach or failure to the CM in writing.

- 5.3.4 The CM shall take all reasonable steps to prevent abuse of the SCM system.
- 5.3.5 All allegations against a practitioner or any other role player, of corruption, improper conduct or compliance failure with the SCM system shall be investigated by the CM or the delegate who will, when justified take steps against such official or other role player.
- 5.3.6 The CM shall report any conduct that may constitute a criminal offence to the SAPS.

5.4 COMBATING OF ABUSE OF SUPPLY CHAIN MANAGEMENT SYSTEM

5.4.1 MSCM Regulation 38 provides that:

- (1) A supply chain management policy must provide measures for the combating of abuse of the supply chain management system, and must enable the accounting officer -
- (a) to take all reasonable steps to prevent such abuse;
 - (b) to investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with the supply chain management policy, and when justified
 - i. take appropriate steps against such official or other role player; or
 - ii. report any alleged criminal conduct to the South African Police Service;
 - (c) to check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector;
 - (d) to reject any bid from a bidder-
 - i. if any municipal rates and taxes or municipal service charges owed by that bidder or any of its directors to the municipality or municipal entity, or to any other municipality or municipal entity, are in arrears for more than three months; or
 - ii. who during the last five years has failed to perform satisfactorily on a previous contract with the municipality or municipal entity or any other organ of state after written notice was given to that bidder that performance was unsatisfactory;
 - (e) to reject a recommendation for the award of a contract if the recommended bidder, or any of its directors, has committed a corrupt or fraudulent act in competing for the particular contract;
 - (f) to cancel a contract awarded to a person if -
 - i. the person committed any corrupt or fraudulent act during the bidding process or the execution of the contract; or

- ii. an official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person; and
- (g) to reject the bid of any bidder if that bidder or any of its directors
 - i. has abused the supply chain management system of the municipality or municipal entity or has committed any improper conduct in relation to such system;
 - ii. has been convicted for fraud or corruption during the past five years;
 - iii. has wilfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years; or
 - iv. has been listed in the Register for Tender Defaulters In terms section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).
- (2) The accounting officer must inform the National Treasury and relevant provincial treasury in writing of any actions taken in terms of sub-regulation (1)(b)(ii), (e) or (f).

5.5 DECLARATION OF INTEREST

- 5.5.1 A SCM practitioner or other role player, or close family member, partner or associate of such practitioner or other role player involved in the implementation of the SCM policy, shall declare to the CM details of any private or business interest which that person or any close family member, partner or associate may have in any proposed procurement or disposal process of, or in any award of a contract by EMM.
- 5.5.2 In addition the party shall immediately withdraw from participating in any manner whatsoever in the process relating to the contract.
- 5.5.3 A SCM official shall recognise and disclose any conflict of interest that may arise.
- 5.5.4 SCM officials or other role players shall not place themselves under any financial or other obligation to individuals or organizations that might seek to influence them in the performance of their official duties.
- 5.5.5 All declarations must be recorded in a register which the Accounting Officer must keep for this purpose.

5.6 DECLARATION OF BIDDER'S PAST SCM PRACTICES

- 5.6.1 The CM is required to take all reasonable steps to prevent abuse of the SCM system in terms of the MSCM Regulations. Therefore, a bid of any bidder may be disregarded if that bidder or any of its directors have:
 - 5.6.1.1 Abused the institution's supply chain management system;

- 5.6.1.2 Committed fraud or any other improper conduct in relation to such system; or
 - 5.6.1.3 Failed to perform satisfactorily on any previous contract; or
 - 5.6.1.4 Been listed in the Register for Tender Defaulters in terms of section 29 of Prevention and Combating of Corrupt Activities Act (No 12 of 2004).
- 5.6.2 The CM is required to inform the National Treasury and the relevant Provincial Treasury of any steps taken against a bidder in terms of the MSCM Regulations.

5.7 COLLUSIVE PRACTICES (BID RIGGING)

- 5.7.1 Section 4(1)(b)(iii) of the Competition Act No. 89 of 1998, as amended, prohibits any agreement between, or concerted practice by firms, or a decision by an association of firms, if it is between parties in a horizontal relationship and if it involves collusive bidding/ tendering (or bid rigging).
- 5.7.2 In order to deter any form of collusive bidding (bid rigging), bidders shall confirm that they have not entered into any such practices by completing a certificate to that effect.
- 5.7.3 The standard document pertaining to the certification of the independent bid determination shall accompany all price quotations, advertised competitive bids, limited bids and proposals.
- 5.7.4 EMM is required to utilise the information contained in the Certificate of Independent Bid Determination to ensure that when bids are considered all reasonable steps are taken to prevent any form of bid rigging.

5.8 EQUAL TREATMENT

- 5.8.1 All SCM practitioners and other role players shall treat all suppliers and potential suppliers equitably.
- 5.8.2 All SCM officials and role-players, particularly those dealing directly with service providers/suppliers or potential service providers/suppliers, are required to be fair, efficient, firm and courteous and elimination of fraud and corruption

5.9 ACCOUNTABILITY

- 5.9.1 A SCM practitioner and other role players shall be scrupulous in their use of public/organisational property and funds.
- 5.9.2 All SCM officials and other role players shall be accountable for their decisions and actions to the public as well as to EMM.

- 5.9.3 The CM or the delegate is fully responsible and will be held accountable for any expenditures relating to SCM within its area of responsibility.
- 5.9.4 Officials should not make any false or misleading entries into the Accounting systems for any reason whatsoever.

5.10 OPENNESS

- 5.10.1 All supply chain officials shall provide relevant information readily and in a manner that is accessible to relevant parties subject to the Promotion of Access to Information Act No 2 of 2000 and the Promotion of Administrative Justice Act No. 3 of 2000. This shall include giving reasons for the decisions made or actions taken in appropriate cases.

5.11 CONFIDENTIALITY

- 5.11.1 All information that is the property of EMM or its suppliers/service providers shall be protected at all times.
- 5.11.2 Matters of a confidential nature in the possession of supply chain management or other EMM official/s shall be kept confidential unless legislation or the just performance of duty dictates otherwise. Such restrictions should also apply after separation from service.
- 5.11.3 Additional policy provisions regarding the protection of information are contained at section 20 below.

5.12 INDEPENDENCE

- 5.12.1 All SCM practitioners and role players may not use their position for private gain or to improperly benefit another person.
- 5.12.2 If a SCM official or other role player's family member, partner or associate of such official or role player, has any private or business interest in any bid to be submitted or to be adjudicated, such interest shall be disclosed and recorded and the party with the interest shall withdraw from participating in the evaluation process relating to the bid if there is a conflict of interest.

5.13 GIFTS AND HOSPITALITY

- 5.13.1 No person who is a provider of goods or services or prospective provider of goods or services to EMM, or a recipient or prospective recipient of goods disposed, or to be disposed of, by EMM, may either directly or through a representative or intermediary promise, offer or grant any reward, gift, favour or hospitality to any official of EMM, where such receipt is in excess of the prescribed regulatory amounts.

- 5.13.2 All SCM practitioners and role players shall ensure that officials do not compromise the credibility or integrity of the SCM system through the acceptance of gifts or hospitality or any other act.
- 5.13.3 In the event that any reward, gift, favour or hospitality is in fact provided to any official of EMM, such receipt shall be declared in full to the HOD of the respective Department or the CM, as appropriate.
- 5.13.4 In accordance with EMM's Code of Conduct, the SCM division shall maintain a gift and hospitality register in which all such gifts, etc. shall be recorded.

5.14 FRAUD AND CORRUPTION

- 5.14.1 The Prevention and Combating of Corrupt Activities Act, Act No 12 of 2004 shall be adhered to.
- 5.14.2 EMM is to ensure that all officials, clients and other stakeholders (including providers) are made aware of the implications of The Prevention and Combating of Corrupt Activities Act by way of its bidding processes.
- 5.14.3 Fraud prevention plans shall be instituted.
- 5.14.4 A SCM practitioner or other role player shall assist the CM in combating corruption and fraud in the SCM system.
- 5.14.5 The CM or the delegate shall reject a proposal for adjudication if he/she determines that the provider recommended for adjudication, has engaged in corrupt or fraudulent activities in competing for the contract in question.
- 5.14.6 Contractors shall observe the highest standard of ethics during the selection process and execution of the contract. In terms of these provisions corrupt and fraudulent practices can be defined as follows:
 - 5.14.6.1 Corrupt practice means the offering, giving, receiving or soliciting of anything of value to influence the action of public official in the selection process or in contract execution.
 - 5.14.6.2 Fraudulent practice means a misrepresentation of facts in order to influence a selection process or the execution of a contract to the detriment of the EMM and under collusive practice designed to establish prices at artificial, non- compliance levels and to deprive the EMM of benefits of competition.
 - 5.14.6.3 Contractors must assist in combating corruption in SCM in line with the Prevention and Combating of Corrupt Activities Act, by not giving, receiving or soliciting any item of value to influence the action of an official dealing with Supply Chain Management.
- 5.14.7 Contractors and EMM Official must assist in combating procurement fraud through awareness, vigilance and consistent assessment in line with the Prevention and Combating of Corrupt Activities Act by not misrepresenting facts

in order to influence a procurement process or the execution of a contract to the detriment of the EMM, including collusive practice.

- 5.14.7.1 All SCM practitioners shall assist the Accounting Officer in combating corruption and fraud.
- 5.14.7.2 The CM must insist that a provision be included in the contract agreement, requiring contractors to permit the CM to inspect their accounts and records relating to the performance of the contract and to have them audited by auditors appointed by the CM.

5.15 COMBATIVE PRACTICES

- 5.15.1 The use of combative practices shall not be allowed. Combative practices include, but are not limited to:
 - 5.15.1.1 Suggestions of fictitious lower quotations.
 - 5.15.1.2 Reference to non-existent competition.
 - 5.15.1.3 Exploiting errors in bids.
 - 5.15.1.4 Soliciting bids from bidders whose names appear on the list of restricted bidders/suppliers/persons.
- 5.15.2 The use of combative practices is unethical and illegal and should be avoided at all costs.

5.16 INTERNAL ABUSE OF PREFERENTIAL PROCUREMENT SYSTEM

- 5.16.1 The CM shall ensure that the preferential procurement system is not abused for any purpose, neither for the benefit of EMM nor for the benefit of any potential provider/contractor or individual.
- 5.16.2 All conduct, dealings and actions are to be bona fide.
- 5.16.3 Any employee suspected of acting contrary to this policy, will be dealt with in terms of the disciplinary code of EMM.
- 5.16.4 The Accounting Officer shall:-
 - 5.16.4.1 Take all reasonable steps to prevent abuse, corruption and collusion through at least regular internal audit reviews and external audit as well as risk assessments in the SCM environment.
 - 5.16.4.2 Investigate any allegations against an official or other role-player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with the SCM Policy
 - 5.16.4.3 Take steps against such official or other role-player and inform Council and National Treasury of such steps in terms of section 32 of the MFMA.
 - 5.16.4.4 Report any conduct that may constitute criminal offence to the SAPS (South African Police Services)
 - 5.16.4.5 Ensure that the EMM considers all complaints received and shall respond thereto in a timely manner.

5.17 EXTERNAL ABUSE OF PREFERENTIAL PROCUREMENT SYSTEM, INCLUSIVE OF FRONTING

- 5.17.1 EMM shall vigorously pursue all legal remedies (Regulations 13 of the Preferential Procurement Regulations, 2011) available in the event that the preferential procurement points system is abused, particularly through, for example, but not limited to the following ways:
- 5.17.2 That a service provider or contractor:
- 5.17.3 Has promised, offered or given a bribe during the bidding process and/or after conclusion of the contract.
- 5.17.4 Has acted in a fraudulent manner or in bad faith or in any other improper manner during the bidding process or after conclusion of the contract.
- 5.17.5 With whom an agreement was entered into on the strength of information furnished by him/her, and it became apparent after conclusion of such agreement that the information provided was incorrect.
- 5.17.6 To protect parties to an agreement, potential providers, contractors and EMM officials shall be made aware of the implications of any contraventions.
- 5.17.7 Potential providers shall be informed via the conditions of contract of implications of contraventions.
- 5.17.8 EMM will endeavour, where possible, to identify fronting before a contract is awarded.
- 5.17.9 Where EMM becomes aware of a possible fronting case, the process in accordance with the Constitution, the rules of Administrative Law and the Promotion of Administrative Justice Act, shall be followed as a starting point.

5.18 SPONSORSHIPS

- 5.18.1 The CM shall promptly disclose to Council, the National Treasury and the Gauteng Provincial Treasury any sponsorship promised, offered or granted to EMM, whether directly or through a representative or intermediary, by any person who is:
- 5.18.2 A provider of goods or services or prospective provider of goods or services to EMM.
- 5.18.3 A recipient or prospective recipient of goods disposed, or to be disposed of, by EMM.

5.19 OFFENCES AND LIABILITY

5.19.1 The CM is guilty of an offence if he/she:

5.19.1.1 Deliberately or in a grossly negligent way:

5.19.1.1.1 Contravenes or fails to comply with a provision, but not limited to, sections 60(a) & (b); 61(1) & (2), 62(1) & (2), 63(1) & (2), 64(1) to (4); or 65(1) & (2) of the MFMA.

5.19.1.1.2 Fails to take all reasonable steps to prevent irregular or fruitless and wasteful expenditure.

5.19.1.1.3 Fails to take all reasonable steps to prevent corruptive practices in:

5.19.1.1.4 The management of EMM's assets.

5.19.1.1.5 Receipt of money.

5.19.1.1.6 SCM system.

5.19.1.1.7 Deliberately provides false or misleading information in any document which in terms of a requirement of the MFMA shall be:

5.19.1.1.8 Submitted to the Auditor-General, the National Treasury or any other organ of state.

5.19.1.1.9 Made public.

5.19.2 A senior official or other official of EMM exercising financial management responsibilities and to whom a power or duty was delegated in terms of Section 78 of the MFMA, is guilty of an offence if that senior official or official deliberately or in a grossly negligent way contravenes or fails to comply with a condition of a delegation.

5.19.3 An official of EMM, a member of the Council of EMM or any other person is guilty of an offence if that person deliberately or in a grossly negligent way:

5.19.3.1 Impedes a CM from complying with a provision of the MFMA.

5.19.3.2 Contravenes a provision of section 115(2), 118 or 126(5) of the MFMA or

5.19.3.3 Provides false or misleading information for the purposes of any document which shall in terms of a requirement of the MFMA be:

5.19.3.3.1 Submitted to the Council or CM or to the Auditor-General or the National Treasury or

5.19.3.3.2 Made public

5.19.4 No person may amend or tamper with any bids, quotations, and contracts after their submission.

5.19.5 A person is liable on conviction of an offence in terms of section 174 of the MFMA to imprisonment for a period not exceeding five (5) years or to an appropriate fine determined in terms of legislation.

5.19.6 In terms of section 167(2) of the MFMA, EMM may recover from a political office bearer or official, any loss or damage suffered by it because of the deliberate or negligent unlawful actions of that person when performing such a function of office.

5.20 CONDUCT OF MEMBERS OF BID COMMITTEES

- 5.20.1 Conduct of all members and invitees shall be in accordance with the relevant legislative environment, the National Treasury's Code of Conduct for SCM practitioners and instructions issued from time to time by National Treasury in this regard.
- 5.20.2 A member of any Bid Committee, technical advisor or user representative who contravenes or fails to comply with the afore-mentioned, shall summarily be dismissed from its role and appropriate steps taken against the person.

5.21 CONDUCT OF MEMBERS OF THE COUNCIL AND OFFICIALS

- 5.21.1 No Council members or officials exercising a power or performing a function in terms of the MFMA, is liable in respect of any loss or damage resulting from the exercise of that power or the performance of that function in good faith.

SECTION 6 LEGISLATIVE ENVIRONMENT

6.1 EMM COMMITS TO APPLYING THE PRESCRIBED LEGISLATIVE FRAMEWORK AS IT PERTAINS TO SCM.

6.1.1 THE CONSTITUTION

SCM policy must comply with section 217 of the Constitution of the Republic of South Africa, Act No 108 of 1996, as amended. The section provides that:

- “(1) when an organ of state in the national, provincial or local sphere of Government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.
- (2) subsection (1) does not prevent the organs of state or institutions referred to in the subsection from implementing a procurement policy providing for:

categories of preference in the allocation of contracts; and the protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.
- (3) national legislation must prescribe a framework within which the policy referred to in subsection (2) must be implemented.”

6.1.2 THE MUNICIPAL FINANCE MANAGEMENT ACT

- 6.1.2.1 According to section 2 of the Municipal Finance Management Act (MFMA), Act No 56 of 2003, the object of the Act is to secure sound and sustainable management of the fiscal and financial affairs of municipalities and municipal entities by establishing norms and standards for, inter alia, supply chain management.
- 6.1.2.2 The MFMA sets out the roles and responsibilities of the Council, the CM, CFO, senior managers and other officials and prescribes numerous requirements pertaining to municipal SCM.
- 6.1.2.3 The MFMA shall be fully adhered to in the execution of all SCM activities.

6.1.3 MUNICIPAL SCM REGULATIONS OF 2005

- 6.1.3.1 The MSCM regulations prescribe a comprehensive system of SCM that must be adopted and implemented by municipalities. The foundational provisions are:

- 6.1.3.2 Each municipal entity must have and implement a SCM policy.
- 6.1.3.3 Council must delegate such SCM powers and duties to the CM for the CM to execute the SCM function appropriately.
- 6.1.3.4 Each municipality must establish its own SCM Unit to implement its SCM policy. The Unit must, where possible, operate under the direct supervision of the CFO.
- 6.1.3.5 The training of officials involved in implementing a SCM policy should be in accordance with any Treasury guidelines on SCM training.
- 6.1.3.6 The SCM system must provide effective systems for the following:
 - 6.1.3.6.1 Demand management.
 - 6.1.3.6.2 Acquisition management.
 - 6.1.3.6.3 Logistics management.
 - 6.1.3.6.4 Disposal management.
 - 6.1.3.6.5 Risk management
 - 6.1.3.6.6 Performance management.
- 6.1.4 The bid documentation must take into account the requirements of the Construction Industry Development Board (CIDB), in the case of a bid relating to construction, upgrading or refurbishment of buildings or infrastructure.
- 6.1.5 All other regulations issued under the MFMA should be taken into account in so far as they impact on SCM. Applicable regulations are available on the National Treasury's website under the MFMA tab (www.treasury.gov.za).

6.2 MUNICIPAL SYSTEMS ACT

- 6.2.1 The purpose of the Municipal Systems Act, Act No 32 of 2000 as amended by section 35 of Act No 51 of 2002, is as follows:
- 6.2.2 To provide for the core principles, mechanisms and processes that is necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all.
- 6.2.3 To provide for governance of municipal entities and general issues like code of conduct for directors and members of staff of a municipality.

6.3 MUNICIPAL SYSTEMS AMENDMENT ACT NO. 44 OF 2003

The Act establishes Integrated Development Plans (IDP) as the principle strategic planning instrument that guides and informs all planning and development and decisions of a municipality.

6.4 THE PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT (PPPFA) AND REGULATIONS

- 6.4.1 The Preferential Procurement Policy Framework Act (PPPFA), Act No 5 of 2000 and its regulations issued in June 2011, gives effect to Section 217(3) of the Constitution by providing a framework for the implementation of the procurement policy contemplated in Section 217(2) of the Constitution.
- 6.4.2 EMM will apply the Preferential Procurement Policy Framework Act, (Act No 5 of 2000) and its regulations.
- 6.4.3 The Act provides for the implementation of a preference system in the allocation of contracts for categories of service providers and the promotion of goals to advance the interest of persons disadvantaged by unfair discrimination.
- 6.4.4 The Act regulates bid processes.

6.5 THE BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT (B-BBEE ACT)

- 6.5.1 The Broad Based Black Economic Empowerment Act (B-BBEE Act), Act No. 53 of 2003, provides a framework for the promotion of black economic empowerment, the establishment of a balanced scorecard and the publication of industry transformation charters. A supporting strategy has also been published. The codes of good practice were promulgated in 2007 and consist of a balanced scorecard measuring the BEE status of companies on an annual basis.
- 6.5.2 EMM will adhere to the directives contained in the B-BBEE Act as it affects the procurement process.

6.6 THE PREVENTION AND COMBATING OF CORRUPT ACTIVITIES ACT

- 6.6.1 EMM will adhere to the directives contained in the Prevention and Combating of Corrupt Activities Act, Act 12 of 2004 as it affects the supply chain process.
- 6.6.2 The Act regulates offences in respect of corrupt activities relating to contracts, activities pertaining to acceptance or offering of any gratification and the improper influence of another person as well as offences in respect of corrupt activities relating to procurement.
- 6.6.3 The Act provides for miscellaneous offences relating to possible conflict of interests and other unacceptable conduct.
- 6.6.4 The Act also provides that the National Treasury must establish a register for bid defaulters.

6.7 THE CONSTRUCTION INDUSTRY DEVELOPMENT BOARD (CIDB) ACT, REGULATION AND GUIDELINES

- 6.7.1 Section 16(3) states that the Minister of Public Works must prescribe the manner in which public sector construction contracts may be invited, awarded and managed within the framework of the register and the policy on procurement.
- 6.7.2 Section 16(4) of the CIDB Act states that from a date determined by the Minister, organs of state must apply the register of contractors to its procurement process.
- 6.7.3 Section 18(1) of the CIDB Act states that a contractor may not undertake, carry out or complete any construction works or portion thereof for public sector contracts, awarded in terms of competitive bids or quotations, unless he or she is registered with the Board and holds a valid registration certificate issued by the Board.
- 6.7.4 Section 22(1) states *inter alia* that the CIDB must establish a register of projects. Sub-section (2) states *inter alia* that the Minister must prescribe the requirements for registration of projects, and (3) states that all construction contracts above the prescribed tender value must be recorded in the register. (CIDB Regulation 18(1)(a) specifies the public sector value as exceeding R 200 000, incl. VAT.)
- 6.7.5 Part IV of the CIDB regulations prescribe the requirements referred to in section 16 and Part III prescribes the requirements listed in section 22 of the Act.
- 6.7.6 Section 24(b) of the CIDB Regulations states that every client or employer who is soliciting competitive bids in the construction industry must publish that invitation to bid on the official CIDB website and that solicitation must be in accordance with:
- 6.7.7 The Municipal SCM Regulations of 2005; and the latest approved CIDB Standard for Uniformity in Construction Procurement.
- 6.7.8 The CIDB Best Practice guidelines are recognized by the Board as being Construction Procurement Best Practices and provide comprehensive guidance on implementing the requirements of this standard.
- 6.7.9 MSCM Regulation 21(a)(iii) prescribes that EMM must take into account the requirements of the CIDB in the case of bid documentation relating to construction, upgrading or refurbishment of buildings or infrastructure.

6.8 STATE INFORMATION TECHNOLOGY AGENCY (SITA) ACT

- 6.8.1 The State Information Technology Agency (SITA) Act, Act No 88 of 1998, as amended by Act 38 of 2002, requires that SITA may act as the procurement agency for a municipality's information technology requirements should the municipality so deem necessary.
- 6.8.2 EMM may utilise SITA as an IT procurement agency on an as and when required basis.
- 6.8.3 However, all IT tenders above R 10 million (all applicable taxes included) may be reviewed by SITA at the discretion of the CM.

6.9 OTHER APPLICABLE LEGISLATION, BY-LAWS OR ORDINANCES

- 6.9.1 Cognisance must be taken of the following pieces of legislation that may have an impact on the supply chain environment:
 - 6.9.1.1 Promotion of Administrative Justice Act, Act No 3 of 2000.
 - 6.9.1.2 Promotion of Access to Information Act, Act No 2 of 2000.
 - 6.9.1.3 Protected Disclosures Act, Act No 26 of 2000.
 - 6.9.1.4 National Small Business Act, Act No. 102 of 1996
 - 6.9.1.5 National Small Business Amendment Act, Act No. 29 of 2004
 - 6.9.1.6 Competition Act, Act No 89 of 1998.
 - 6.9.1.7 Close Corporations Act, Act No. 69 of 1984 and its regulations
 - 6.9.1.8 Companies Act, Act No. 71 of 2008
- 6.9.2 All other applicable by-laws, ordinances or legislation impacting on SCM must be taken into account.

6.10 PUBLIC-PRIVATE PARTNERSHIP REGULATIONS

- 6.10.1 In instances where goods, works and/or services are procured by means of public private partnerships (PPP's), Chapter 11, Part 2 of the MFMA as well as the MFMA PPP Regulations of 2005 must be adhered to.
- 6.10.2 SCM must, in terms of National Treasury MFMA Circular 32 of 2003, assist the municipality with preparation of the annual report as it relates to agreements, contracts and projects under Public Private Partnership, service delivery performance, long-terms contracts, etc.

6.11 NATIONAL TREASURY GUIDELINES

- 6.11.1 Regulations issued by National Treasury under the MFMA are mandatory for EMM to follow but SCM guidelines issued under the MFMA must be adopted by Council before they become applicable to the Municipality, either via SCM policy or on their own.
- 6.11.2 EMM will however, utilize all Treasury issued guidelines as best practice references, should such guidelines not be adopted by Council.
- 6.11.3 All MFMA related regulations and guidelines on SCM are electronically available on National Treasury's website (www.treasury.gov.za.)

6.12 THE KING III REPORT ON GOOD GOVERNANCE

- 6.12.1 The King III report sets out key principles of good governance, as follows:
- 6.12.2 Developmental local government is local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of life.
 - 6.12.2.1 Accountability for services
 - 6.12.2.2 Sustainability of services
 - 6.12.2.3 Accountability, transparency and good governance
 - 6.12.2.4 King III promotes that statutory financial information and sustainability information be integrated in the “Annual Report” of an organisation.

SECTION 7 ESTABLISHMENT

7.1 THE SCM SYSTEM

- 7.1.1 An effective and efficient SCM system is hereby established for:
 - 7.1.1.1 The acquisition of goods, services and works
 - 7.1.1.2 The disposal and letting of state assets and goods no longer required.
- 7.1.2 The system shall be fair, equitable, transparent, competitive and cost-effective.
- 7.1.3 The system shall be consistent with the PPPFA and shall take account of the B- BBEE Act and its Codes of Good Practice.
- 7.1.4 The system shall provide for at least the following effective systems:
 - 7.1.4.1 Demand management
 - 7.1.4.2 Acquisition management
 - 7.1.4.3 Logistics management
 - 7.1.4.4 Disposal management
 - 7.1.4.5 Risk management
 - 7.1.4.6 Regular assessment of supply chain performance.

7.2 THE SCM FUNCTION

- 7.2.1 The CM shall establish a SCM directorate (SCM division) to implement this SCM policy.
- 7.2.2 The SCM directorate shall, where possible, operate under the direct supervision of the Chief Financial Officer or a delegated official, in terms of section 7(3) of the MFMA Regulations.

7.3 TRAINING OF SCM OFFICIALS AND OTHER STAKEHOLDERS

- 7.3.1 EMM shall, for SCM purposes, provide resources or opportunities for the training of relevant officials, to meet the prescribed National Treasury minimum competency levels.
- 7.3.2 The training of officials (SCM practitioners, users, SCM committee members, etc.) involved in implementing this SCM policy and system should be in accordance with all Treasury regulations and guidelines on SCM training.
- 7.3.3 Relevant officials should be trained on all aspects of SCM over and above SCM regulations, as and when deemed appropriate by EMM.

SECTION 8 ROLES AND RESPONSIBILITIES

8.1 SUPPLY CHAIN FOCUS

- 8.1.1 The roles and responsibilities of all the structures hereunder are defined only from the perspective of SCM.

8.2 OVERSIGHT ROLE OF EMM COUNCIL

- 8.2.1 The Council shall at least annually review and as necessary adopt an updated or amended SCM Policy.
- 8.2.2 The Council shall maintain oversight over the implementation of the SCM Policy to ensure that it is within the ambit of the applicable legislation.
- 8.2.3 From a SCM perspective, the Municipal Public Accounts Committee shall:
 - 8.2.3.1 Investigate all SCM related expenditure that falls into the definitions of fruitless and wasteful, irregular and unauthorised expenditure and shall recommend appropriate action to Council.
- 8.2.4 The Council shall delegate additional SCM powers and duties to the CM for the execution of SCM functions.

8.3 OVERSIGHT ROLE OF THE MAYORAL COMMITTEE

- 8.3.1 The EMM Mayoral Committee shall:
- 8.3.2 Ensure a co-operative response to SCM policies that affect all the Departments.
- 8.3.3 Co-ordinate the programs and projects of the Departments;

8.4 ROLE OF THE CITY MANAGER

- 8.4.1 In terms of the MFMA, the City Manager (CM) shall:
- 8.4.1.1 Discharge his/her duties in respect of implementation the SCM policy.
 - 8.4.1.2 Comply with his/her responsibilities in terms of Section 115 of the MFMA and other applicable provisions.
 - 8.4.1.3 Take all reasonable steps to ensure that EMM has and implements a SCM policy as set out in MFMA Regulation 2 and taking into account any treasury regulations and guidelines.
 - 8.4.1.4 Maximise administrative and operational efficiency in the implementation of the SCM policy.
 - 8.4.1.5 Sub-delegate in writing such SCM powers and duties as necessary for the effective management of SCM.
 - 8.4.1.6 Enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of the SCM Policy.
 - 8.4.1.7 Take all reasonable steps to ensure that proper mechanisms, delegation (through sub-delegation) and separation of duties in the SCM system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.
 - 8.4.1.8 Exercise utmost care to ensure reasonable protection of the assets and records of EMM.
- 8.4.2 The CM is responsible for the preparation and submission of the draft SCM policy as well as amendments to the Council for adoption.
- 8.4.3 The CM shall immediately establish a Bid Committee System, comprising of at least the under-mentioned bid committees and must appoint the members of each committee, taking into account that the members must be eligible for the positions:
- 8.4.4 At least one Bid Specification Committees (BSC)
 - 8.4.5 At least one Bid Evaluation Committees (BEC)
 - 8.4.6 A Bid Adjudication Committee (BAC) with varying approval and recommendation thresholds, as deemed appropriate for the proper functioning of the Bid Committee system.
 - 8.4.7 On specific strategic or high value bids, the CM may provide for a neutral and/or independent oversight body to oversee such bid processes CM to ensure compliance, fairness and promote transparency.
 - 8.4.8 The CM may apply the committee system to formal written price quotations, where such intervention is deemed appropriate.
 - 8.4.9 The CM may procure goods and services for EMM by utilising the committee system of another municipality or municipal entity in terms of an agreement with that other municipality or municipal entity.
 - 8.4.10 The CM shall, within 10 days after the end of each financial year, submit a report on the implementation of the SCM policy to the Council for consideration.

- 8.4.11 For the purposes of the oversight role, the CM shall, whenever there are serious and material problems in the implementation of the SCM policy, immediately submit a report on the implementation and maintenance of the policy to the Council.
- 8.4.12 The CM shall within 10 days of the end of the quarter, submit a report on the implementation of the SCM policy to the Mayor.
- 8.4.13 The reports shall be made public in accordance with a process similar to publicising in terms of section 21A of the Municipal Systems Act.
- 8.4.14 The CM may not:
- 8.4.14.1 Act in a way that is inconsistent with the responsibilities assigned to the CM in terms of the MFMA.
 - 8.4.14.2 Use the position or privileges of, or confidential information obtained as CM, for personal gain or to improperly benefit another person.
- 8.4.15 In terms of the MSCM Regulations of 2005:
- 8.4.15.1 Regulation 3(1) states that the CM of the municipality shall:
- (a) promptly prepare and submit a draft supply chain management (SCM) policy, complying with MSCM Regulation 2 to the Council for adoption
 - (b) at least annually review the implementation of the policy, and
 - (c) when the CM considers it necessary, submit proposals for amendment of the policy to the Council.
- 8.4.16 Regulation 3(2) states that:
- (a) the CM may use any Treasury guidelines determining standards for municipal SCM policies and submit to Council that standard or a modified version thereof, as a draft policy
 - (b) if the CM submits a draft policy to the Council that differs from the (National Treasury's) guideline standard, the CM shall ensure that such draft policy complies with Regulation 2.
 - (c) the CM shall report any deviation from the guideline standard to the National Treasury and the relevant Provincial Treasury.
- 8.4.17 Regulation 3(3) states that when preparing or amending its SCM policy, the municipality shall take account of the need for uniformity in SCM practices, particularly to promote accessibility of SCM systems for small businesses.
- 8.4.18 Regulation 3(4) states that the CM shall in terms of section 62(1)(f)(iv) of the MFMA take all reasonable steps to ensure that the Municipality has and implements a SCM policy as set out in Regulation 2.
- 8.4.19 The CM shall submit deviation reports to Council on a quarterly basis.

8.5 ROLE OF STRATEGIC MANAGEMENT TEAM (SMT)

- 8.5.1 The SMT shall:
 - 8.5.1.1 Monitor and recommend to the CM, scheduled reports received from the CFO and SCM on the implementation of SCM policy and the performance of SCM.
 - 8.5.1.2 Review and approve the SCM structure.
 - 8.5.1.3 Approve consolidated demand management plans.

8.6 ROLE OF THE CHIEF FINANCIAL OFFICER (CFO)

- 8.6.1 In addition to role of the CFO in accordance with section 81 of the MFMA, the CFO shall ensure the establishment of a compliant SCM function for EMM and shall maintain and oversee such SCM office and function within his structure.
- 8.6.2 Shall ensure the development and implementation of a best practice operating model for SCM in the municipality
- 8.6.3 Shall ensure that the municipality has an approved SCM policy, procedures, strategy and SCM IT systems which provides for the execution of a compliant, efficient and cost effective SCM function within EMM.
- 8.6.4 Shall ensure that the SCM function is adequately capacitated, skilled and trained to comprehensively address all SCM needs of EMM.
- 8.6.5 Shall provide advice to the CM, senior managers and other senior officials on SCM matters.

8.7 ROLE OF THE HEAD OF SCM

- 8.7.1 The Head of SCM is responsible for the implementation of SCM policy, procedures, SCM IT systems, operating model and strategy, in the municipality and management of the day-to-day operations of SCM as well as management of SCM staff.
- 8.7.2 Effective demand management and supply chain planning is also one of the primary responsibilities of the Head of SCM.
- 8.7.3 The Head of SCM shall oversee the consolidation of demand management plans and for the submission via the CFO to the SMT for approval.
- 8.7.4 The Head of SCM reports to the CFO on SCM operations and submits reports and management information, as required, to the CFO, CM, Council and to the National and Provincial Treasuries.
- 8.7.5 The Head of SCM shall provide advice on SCM matters to Council, CM, CFO, senior managers and other senior officials.

8.8 ROLE OF HEADS OF DEPARTMENTS

- 8.8.1 Provide inputs for the SCM policy, procedures, delegations and reports.
- 8.8.2 Provide approval to commence with a project through external procurement, where required, for values up to R 200 000 (all applicable taxes included).
- 8.8.3 Approve terms of reference/specification & evaluation criteria and special conditions, per requirement, in consultation with SCM, where required, for values up to R 200 000 (all applicable taxes included).
- 8.8.4 Approve deviation from normal procurement procedures and processes due to emergency. Obtain approval as soon as possible after the event from the AO. Report afterwards as per the emergency reporting requirement.
- 8.8.5 Adjudicate quotations up to R 200 000 (all applicable taxes included) or sub- delegate the function to a senior manager in the department. However, when the highest scorer is not recommended, or where the adjudication structure does not agree with the recommendation of the evaluation structure, the adjudication structure loses its ability to award and the recommendation must go to the HOD or lower threshold BAC for adjudication, as the case may be.
- 8.8.6 The relevant HOD or sub-delegated by the HOD, up to R 200 000 (all applicable taxes included), may draw lots in the event of equal bids to determine who is awarded the bid/quote, provided that the bidders have also scored equal points for the attainment of specified preferential goals.
- 8.8.7 Signing of contracts, above R 2 million up to R 10 million (all applicable taxes included). This must be in line with any conditions imposed by any award structures that adjudicated and approved the award.
- 8.8.8 HOD's may recommend contract variations, amendments, transfer, cession or termination above R 2 million (all applicable taxes included) to the relevant BAC or the CM for approval.

8.9 ROLE OF EMM SENIOR MANAGERS

- 8.9.1 Provide inputs for the SCM policy, procedures, delegations and reports.
- 8.9.2 Adjudicate quotations up to R 200 000 (all applicable taxes included) or sub- delegate the function to a senior manager in the department.

However, when the highest scorer is not recommended, or where the adjudication structure does not agree with the recommendation of the evaluation structure, the adjudication structure loses its ability to award and the recommendation must go to the HOD or lower threshold BAC for adjudication, as the case may be.
- 8.9.3 The relevant HOD or senior manager per department, sub-delegated by the HOD, up to R 200 000 (all applicable taxes included), may draw lots in the event of equal bids to determine who is awarded the bid/quote, provided that the bidders have also scored

equal points for the attainment of specified preferential goals.

- 8.9.4 Signing of contracts, up to R 2 million (all applicable taxes included). This must be in line with any conditions imposed by any award structures that adjudicated and approved the award.
 - 8.9.5 Senior managers may recommend contract variations, amendments, transfer, cession or termination up to R 200 000 (all applicable taxes included) to the relevant HOD for approval.
- SECTION 9 BID COMMITTEE SYSTEM

9.1 THE BID COMMITTEE SYSTEM

9.1.1 The committee system for competitive bids shall consist of at least:

- 9.1.1.1 A Bid Specification Committee (BSC)
- 9.1.1.2 A Bid Evaluation Committee (BEC)
- 9.1.1.3 A Bid Adjudication Committee (BAC)
- 9.1.1.4 A Disposal Committee
- 9.1.1.5 An Appeals Committee.

9.1.2 The committee system shall operate within the prescripts of the following legislation and regulations:

- 9.1.2.1 The MFMA
- 9.1.2.2 MSCM Regulations, especially regulations 27, 28 and 29
- 9.1.2.3 The Preferential Procurement Policy Framework Act and its Regulations
- 9.1.2.4 Elements of the Broad-Based Black Economic Empowerment Act, its Strategy and the Codes of Good Practice
- 9.1.2.5 All other legislation, regulations and National Treasury guidelines impacting on SCM.

9.2 BID SPECIFICATION COMMITTEES (BSC's)

9.2.1 ESTABLISHMENT OF BID SPECIFICATION COMMITTEES

- 9.2.1.1 The CM shall establish and appoint one or more Bid Specification Committee/s on an ad hoc basis, as necessary, to cater for the main requirements of the municipality.

9.2.2 FUNCTIONS OF BID SPECIFICATION COMMITTEES

- 9.2.2.1 Each bid specification committee shall compile bid specifications/terms of references for the procurement of goods and services in as per their delegations and ensure that the specifications/terms of references is/are in accordance with the IDP.

9.2.3 COMPOSITION OF BID SPECIFICATION COMMITTEES

- 9.2.3.1 Each Committee shall at least be composed of:
- 9.2.3.2 The appointed SCM specialist responsible for the goods or services.
- 9.2.3.3 One or more officials from EMM and preferably from the relevant Technical and Functional department
- 9.2.3.4 Legal expert
- 9.2.3.5 SCM Risk and compliance expert
- 9.2.3.6 A Finance person should be made available when such expertise is crucial in the development of the Terms of Reference.

- 9.2.3.7 In respect of procurement or sale of property, the Development Facilitation Steering Committee will constitute the BSC
- 9.2.3.8 The Committee may, where appropriate, include external specialists/ advisors.
- 9.2.3.9 No person, advisor or corporate entity involved with the bid specification committee, or director of such a corporate entity, may bid for any resulting contracts.

9.3 BID EVALUATION COMMITTEES (BEC's)

9.3.1 ESTABLISHMENT OF BID EVALUATION COMMITTEES

- 9.3.1.1 The CM shall establish and appoint one or more Bid Evaluation Committees, as necessary per requirement, to cater for the main requirements of the municipality.
- 9.3.1.2 In respect of procurement of property, the Growth and Development Technical Cluster may constitute the BEC.
- 9.3.1.3 Should a member declare a conflict of interest at any stage, the member may not be part of the Bid Evaluation Committee and shall be replaced by a member of suitable expertise.
- 9.3.1.4 An official may not be a member of the Bid Evaluation Committee and the Adjudication Committee/Award Structure for the same bid.
- 9.3.1.5 Persons other than members of the Bid Evaluation Committee or the official/s rendering the Secretariat function are allowed to attend the meetings with prior approval of the CM.
- 9.3.1.6 Attendance may be on a permanent invitee basis or on an ad-hoc basis, as approved by the CM.
- 9.3.1.7 Such person/s shall subscribe to the rules and regulations applicable to a member of the Committee.

9.3.2 FUNCTIONS OF BID EVALUATION COMMITTEES

- 9.3.2.1 The Bid Evaluation Committee will evaluate all bids received from above the quotation threshold.
- 9.3.2.2 The Bid Evaluation Committee shall:
 - 9.3.2.3 Evaluate each bidder's technical and financial ability to execute the contract.
 - 9.3.2.3.1 Check that bids under evaluation are compliant as per the bid document.
 - 9.3.2.3.2 The Risk and Compliance officer attending the meeting shall ensure that evaluations are compliant to policy, procedure and process.
- 9.3.2.4 The Bid Evaluation Committee will submit a report and recommendations regarding the award of the bid or any other related matter to the relevant Bid Adjudication Committee for consideration and/or approval.
- 9.3.2.5 Members of the Bid Evaluation Committee may present their reports to the Bid Adjudication Committee to clarify uncertainties. Such members shall not have any voting power on the Bid Adjudication Committee.

9.3.3 COMPOSITION OF BID EVALUATION COMMITTEES

- 9.3.3.1 A Bid Evaluation Committee should consist of at least three members of which one shall be a senior official.

- 9.3.3.2 The Bid Evaluation Committee should comprise of at least one supply chain specialist, a financial analyst and an official/s from the relevant Department/s.
- 9.3.3.3 If considered necessary, appoint additional officials with suitable expertise from other organs of state with voting rights.
- 9.3.3.4 If considered necessary, appoint additional experts in an advisory capacity only with no voting rights, where such experts are not government officials.
- 9.3.3.5 EMM may appoint alternates to the members appointed in their individual capacities.
- 9.3.3.6 A legal expert may be appointed to provide advisory support to the Committee.
- 9.3.3.7 EMM's Bid Committee Secretariat shall fulfill the professional secretariat function.
- 9.3.3.8 A Risk and Compliance officer shall attend the meeting, but will have no voting rights.
- 9.3.3.9 The CM or delegate shall appoint one of the members of the Bid Evaluation Committee as the chairperson of the Committee. The chairperson shall be a senior official.

9.4 AWARD STRUCTURES

9.4.1 ESTABLISHMENT OF AWARD STRUCTURES

- 9.4.1.1 The CM shall establish the necessary award structures to perform the award/adjudication of quotations and bids as well as for contract variations or amendments.
- 9.4.1.2 The following award structures shall be established:
 - 9.4.1.2.1 A delegated official/s for awards up to the quotation threshold as well as for contract variations, amendments, transfers, cessions or terminations.
 - 9.4.1.2.2 At least one standing Bid Adjudication Committee for awards above R 200 000 up to R 2 million (all applicable taxes included) as well as for contract variations, amendments, transfers, cessions or terminations.
 - 9.4.1.2.3 At least one BAC for awards above R 2 million up to R 10 million and recommendations to the CM for awards above R10 million (all applicable taxes included), as well as for contract variations, amendments, transfers, cessions or terminations.
 - 9.4.1.2.4 The CM is the Award structure for all final awards above R 10 million as well as for all lower value final awards not formally delegated to any other award structure (all applicable taxes included) as well as for contract variations, amendments, transfers, cessions or terminations.
- 9.4.1.3 The award structure for a specific quotation/bid cannot be:
 - 9.4.1.3.1 An official who compiled specifications or performed the evaluation or made a recommendation in respect of that quotation/bid.
 - 9.4.1.3.2 A person who served as member on the Bid Specification Committee or Bid Evaluation Committee, which processed that quotation/bid.
- 9.4.1.4 No advisor or person who assisted the Bid Specification Committee or Bid Evaluation Committee, may form part of the final decision-making process regarding the award of bids.
- 9.4.1.5 A Bid Adjudication Committee should not be established for a period exceeding 2 years should replacement skills be available, with the option to extend each member's individual appointment for a period not longer than another two years.
- 9.4.1.6 Each member shall have an alternate/secundus where feasible in the case of a standing committee.
- 9.4.1.7 Members as well as officials rendering administrative support shall sign an attendance register, an undertaking of confidentiality and impartiality and shall declare any interests.

9.4.2 FUNCTIONS OF BID ADJUDICATION COMMITTEES

- 9421 A Bid Adjudication Committee shall consider reports and recommendations made by the Bid Evaluation Committees.
- 9422 A BAC shall approve, within delegation, BEC reports submitted and award bids, if delegated to do so, through the recording of minutes of the decision and the signing of the evaluation and recommendation reports under the BAC signature section.
- 9423 A BAC shall ensure that:
- 9.4.2.3.1 All bids have been evaluated in a compliant manner
 - 9.4.2.3.2 Disqualifications are justified and that valid and accountable reasons/motivations were furnished for passing over of bids,
 - 9.4.2.3.3 Scoring has been fair, consistent and correctly calculated and applied; and
 - 9.4.2.3.4 Declarations of interest have been taken cognizance of.
- 9424 A BAC shall ensure, before recommending or awarding a bid, that the bid represents the best value available to EMM, in terms of price, functionality, local content and promotion of BEE.
- 9425 If a Bid Adjudication Committee is not delegated to award a specific bid, it shall comment on the recommendations made and forward it together with the report to the higher BAC or to the CM with an alternative recommendation, who shall finally award the contract. They may also refer recommendations back to the BEC if in disagreement.
- 9426 If a bid other than the one recommended in the normal course of implementing the SCM policy is approved, the CM shall within 10 working days, in writing notify the Auditor-General, the Gauteng Provincial Treasury and the National Treasury of the reasons for deviating from such recommendation.
- 9427 BAC's shall also consider and approve/recommend to the higher BAC or CM for approval or alternatively refer back requests to the initiating Department in respect of contract variations or amendments falling within their delegated thresholds.

FUNCTIONS OF OTHER AWARD STRUCTURES

Other award structures shall have similar functions to those described for the Bid Adjudication Committee.

9.4.3 COMPOSITION OF A BID ADJUDICATION COMMITTEE

- 9.4.3.1 The Bid Adjudication Committee shall consist of *at least four senior officials* of EMM and which shall include:
- 9.4.3.1.1 The Chief Financial Officer of EMM or if the CFO is not available, another senior manager designated by the Chief Financial Officer and reporting directly to the CFO.
 - 9.4.3.1.2 At least one senior SCM practitioner, who is an official of EMM.
 - 9.4.3.1.3 A technical expert in the relevant field who is an official of EMM, if EMM has such an expert.

- 9.4.4.2 The CM or delegate shall appoint the chairperson of the Bid Adjudication Committee.
- 9.4.4.3 If the chairperson is absent from the meeting, the members present shall elect a member to preside at the meeting.
- 9.4.4.4 It shall always be ensured that sufficient financial and legal expertise and supply chain expertise are represented on the Bid Adjudication Committee.
- 9.4.4.4.1 Quorum; the BAC cannot undertake business without a quorum, consisting of 50% plus 1 member.
- 9.4.4.4.2 *Alternate/Secondee*; The CM shall appoint an alternate per bid committee member to temporarily replace members that are absent from a meeting/s.
- 9.4.4.4.3 *Attendance register*: Members will be required to sign an attendance register, an undertaking of confidentiality and impartiality and a declaration of interest.
- 9.4.4.4.4 *Conflict of interest*: If a member has a conflict of interest with any item to be considered it shall be recorded in the minutes and the member shall recuse himself/herself from the decision making process.
- 9.4.4.4.5 *Gift register*: No official or other role player involved in SCM may accept any gift, reward, favour, hospitality or other benefits promised directly or indirectly, including to close family members, partner or associate. Where approval is granted for such gift it should be recorded in a gift register.
- 9.4.4.4.6 *Chairperson*: Will preside over a meeting and, in the absence of a chairperson, the vice chairperson will occupy the chair.
- 9.4.5 CLEARANCE OF MEMBERS OF THE BAC
 - 9.4.5.1 The Head of SCM shall, in conjunction with the CFO, CM and other relevant senior stakeholders, recommend the appropriate members to serve on the Bid Adjudication Committee.
 - 9.4.5.2 The selected members shall be senior officials.
 - 9.4.5.3 BAC members shall be cleared to the level of “confidential” by the CM on an annual basis.
- 9.4.6 RESOLUTION OF DISAGREEMENTS ON AWARD OF CONTRACTS
 - 9.4.6.1 Where a Bid Adjudication Committee disagrees with the recommendation of the relevant Bid Evaluation Committee on the adjudication of a contract, the request with the recommendation of the Bid Evaluation Committee, the commentary and reasons of the Bid Adjudication Committee are to be submitted to the higher BAC or to the CM for a final decision.
 - 9.4.6.2 The CM may obtain advice, including SMT advice, as deemed necessary in regard to any SCM matter under his consideration.
 - 9.4.6.3 The CM may:
 - 9.4.6.3.1 After due consideration of the reasons for any deviation described in section 36 of the MSCM Regulations, ratify or reject the decision of the Bid Adjudication Committee. If the decision of the Bid Adjudication Committee is rejected, refer the decision of the Bid Adjudication Committee back to that Committee for consideration.
 - 9.4.6.3.2 On reasonable grounds, at adjudication stage of a bidding process, refer any

recommendation made by the Bid Evaluation Committee or the Bid Adjudication Committee back to the committee for consideration of the recommendation.

- 9.4.6.4 Should the CM decide to award a bid to a bidder other than the one recommended by the Bid Evaluation or Bid Adjudication Committee and the Bid Evaluation Committee did use the correct process to determine their recommendation, the CM shall, in writing, notify the Auditor-General, the Provincial Treasury and the National Treasury of the reasons for deviating from such recommendation, within 10 working days.

9.5 DISPOSAL COMMITTEES

9.5.1 ESTABLISHMENT OF A DISPOSAL COMMITTEE

- 9.5.1.1 The CM or delegate shall establish and appoint one or more Disposal Committees and its chairperson on an ad hoc basis, as necessary.
- 9.5.1.2 The Disposal Committee should be established on an ad hoc basis for each requirement.
- 9.5.1.3 Once a disposal requirement is identified, the SCM Unit shall recommend the establishment of a Disposal Committee to the CM.

9.5.2 FUNCTIONS OF A DISPOSAL COMMITTEE

- 9.5.2.1 Inspect all items that appear on the disposal certificate.
- 9.5.2.2 All members of the Committee shall objectively evaluate the items that are submitted for disposal.
- 9.5.2.3 Make recommendations for consideration to the CM or delegate on the following issues:
- 9.5.2.3.1 Whether items should be disposed of.
- 9.5.2.3.2 The appropriate disposal method.
- 9.5.2.4 The Disposal Committee subsequently convenes on the date previously arranged by the chairperson of the Disposal Committee.
- 9.5.2.5 After the inspection and evaluation of the items the Disposal Committee shall make recommendations, which will be indicated on the disposal certificate.
- 9.5.2.6 The Committee shall ensure that all disposal actions are accounted for in the financial records.
- 9.5.2.7 All the steps in the disposal process shall be recorded on the disposal register.

9.5.3 COMPOSITION OF A DISPOSAL COMMITTEE

- 9.5.3.1 A Disposal Committee should consist of at least three officials.
- 9.5.3.2 The following should be represented on the Committee for movable assets and for which the CM shall appoint the chairperson:
- 9.5.3.2.1 The relevant commodity manager.
- 9.5.3.2.2 An official proficient in logistics management.
- 9.5.3.2.3 The relevant end user of the commodity considered for disposal.
- 9.5.3.3 The following should be represented on the Committee for immovable assets:
- 9.5.3.3.1 CFO as chairperson
- 9.5.3.3.2 Senior Official from the SCM directorate
- 9.5.3.3.3 Senior Official from the Finance directorate

- 9.5.3.3.4 Senior Official from the Legal directorate
- 9.5.3.3.5 An official proficient in logistics management.
- 9.5.3.3.6 The relevant End User/Commodity Manager of the commodity considered for disposal.

9.5.3.4 An official who is in direct control of stores/equipment, which is to be evaluated may not serve as a member of the Disposal Committee, but can assist the Disposal Committee in the evaluation process.

9.6 BID APPEALS COMMITTEE

- 9.6.1 The Bid Appeals Committee (“the Committee”) is constituted, in terms of the Municipal SCM Regulations of 2005, to combat the abuse of the SCM system for the procurement of goods or services by EMM (“EMM”).
- 9.6.2 The EMM shall implement a system of appeal.
- 9.6.3 Disputes, objections, complaints and queries by external providers may be referred to the Bid Appeals Committee.
- 9.6.4 The composition and powers of the committee is contained in the terms of reference of the Bid Appeals Committee.
- 9.6.5 All appeals shall be for the cost of the appellant.

SECTION 10 AUTHORITY TO EXECUTE

10.1 DELEGATION OF AUTHORITY

- 10.1.1 The allocation and disseminated of delegation of authority shall be read in conjunction with the document on the “system of delegation” especially as it pertains to the legislative and governance framework, decision making structures, the various committees, and the flow of information for decision making.
- 10.1.2 SCM activities shall be executed in accordance with pre-established levels of authority through delegations to ensure control and division of responsibility.
- 10.1.3 Delegations shall be in writing to a specific individual or the holder of a post and shall be in line with the CM’s delegated powers and contained in the separate Delegation of Authority Document.
- 10.1.4 A delegation shall be subject to such limitations and conditions as the CM may impose in a specific case.
- 10.1.5 The CM is entitled to confirm, vary or revoke any decision taken in consequence of a delegation, provided that no such variation or revocation of a decision should detract from any rights that may have accrued as a result of the decision.

10.2 DELEGATION OF SCM POWERS AND DUTIES

- 10.2.1 The Council shall delegate such additional powers and duties to the CM so as to enable the CM to:
- 10.2.2 Discharge the legislative SCM responsibilities conferred on the CM in terms of Chapter 8 or 10 of the MFMA and the SCM Policy.
- 10.2.3 Maximise administrative and operational efficiency in the implementation of the SCM policy.
- 10.2.4 Enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of the SCM policy.
- 10.2.5 Comply with responsibilities in terms of Section 115 and other applicable provisions of the MFMA.
- 10.2.6 The Council shall not delegate and the CM shall not sub-delegate any SCM powers or duties to:
- 10.2.7 A person who is not an official of EMM.
- 10.2.8 A committee which is not exclusively composed of officials of EMM.

10.3 SUB-DELEGATIONS

- 10.3.1 The Council shall approve all sub-delegations recommended by the CM.
- 10.3.2 The Council may consider attaching conditions to the sub-delegations approved.
- 10.3.3 The CM may in terms of section 79(3) of the Act sub-delegate any SCM powers and duties, including those delegated by Council to the CM (MSCM Regulation 4.1), subject to restrictions in terms of MSCM Regulations 5.
- 10.3.4 The CM may not sub-delegate the power to make a final award, above R 10 million (all applicable taxes included).
- 10.3.5 The power to make a final award not exceeding R10 million (all applicable taxes included) is sub-delegated in the Delegations of Authority document with certain restrictions, as noted hereunder.
- 10.3.6 The power to make a final award above R2 million (all applicable taxes included), but not exceeding R10 million (all applicable taxes included) may be sub- delegated but only to:
 - 10.3.6.1 The Chief Financial Officer.
 - 10.3.6.2 A senior official
 - 10.3.6.3 A Bid Adjudication Committee of which the Chief Financial Officer or a senior official is a member.
- 10.3.7 The power to make a final award not exceeding R2 million (all applicable taxes included), may be sub-delegated but only to:

- 10.3.7.1 The Chief Financial Officer.
 - 10.3.7.2 A senior official.
 - 10.3.7.3 A manager directly accountable to the Chief Financial Officer or a senior official.
 - 10.3.7.4 A Bid Adjudication Committee.
- 10.3.8 The power to make a final award above R10 million (all applicable taxes included) rests with the CM.

10.4 RESPONSIBILITIES OF OFFICIALS

- 10.4.1 Each official shall carry out its activities within its area of responsibility.
- 10.4.2 Each official shall take appropriate steps to prevent any unauthorised, irregular, fruitless and wasteful expenditure in its area of responsibility.

10.5 PARTICIPATION OF ADVISORS/CONSULTANTS

- 10.5.1 Specialist advisors may assist in the execution of the SCM function.
- 10.5.2 The above services shall be obtained through a competitive process and in accordance with the overall objective as outlined in this policy.
- 10.5.3 No decision-making in terms of any SCM powers and duties shall be delegated to an advisor or consultant.

10.6 ACCOUNTABILITY AND RESPONSIBILITY: DELEGATION OF AUTHORITY

- 10.6.1 Uninterrupted determination of responsibility and accountability should be maintained at all times to ensure that the supply chain system is managed efficiently. It is imperative that the duties and responsibilities of every member of the SCM directorate be clearly defined and delegated.
- 10.6.2 Responsibility
 - 10.6.2.1 Responsibility shall be clearly delegated in writing. Formal acceptance of the delegated duties and responsibilities is also required if it is to be binding.
- 10.6.3 Accountability
 - 10.6.3.1 The delegation of responsibilities and authority creates the obligation and liability to perform duties properly and in accordance with regulations. Delegation to a lower level within the municipality does not diminish the accountability vested in the higher levels within the municipality. It is therefore clear that accountability is created at every level, but can never be delegated.
- 10.6.4 Authority
 - 10.6.4.1 Duties and responsibilities cannot be successfully executed without proper authority. The individual, to whom duties and responsibilities have been delegated, shall have the mandate to give orders and the authority to enforce obedience within the organisational parameters for proper conduct. The person shall therefore be empowered to exercise the rights and to use the discretion assigned to a position.
 - 10.6.4.2 Authority shall therefore be clearly defined and delegated in writing. Formal acceptance

of the delegated authority is also required if it is to be binding.

10.6.5 Influence of expertise on delegations

- 10.6.5.1 A function or task may only be delegated to a qualified and competent official. Accountability cannot be established if it is known that the person to be delegated to is not competent or qualified to execute the task.

SECTION 11 RISK MANAGEMENT

11.1 INTRODUCTION

- 11.1.1 This section shall be read in conjunction with the risk strategy and policy of the EMM.
- 11.1.2 The management of risk is an integral management function. Evaluation of risk management effectiveness is vital to maximise the value created through risk management practices.
- 11.1.3 The MFMA requires the Municipal Manager to effectively manage risk as well as ensure that an effective fraud prevention plan is in place as part of ensuring good governance and effective management of resources of the municipality.
- 11.1.4 The EMM has a low risk appetite for all forms of loss resulting from negligence and wasteful or fruitless expenditure and zero tolerance to fraud and corruption.
- 11.1.5 The SCM division shall establish the risk appetite in the various areas of SCM operations.
- 11.1.6 A systematic risk management framework which shall incorporate a regular assessment of the relevant risks shall be developed.
- 11.1.7 The SCM division shall with regards to risk, be responsible for:
- 11.1.7.1 Applying the risk management processes in their respective functions;
- 11.1.7.2 Implement an action plans to address the identified risks;
- 11.1.7.3 Inform management and/ or the Risk Management Office of new risks and significant changes in known risks.
- 11.1.7.4 The risk identification approach shall focus on the examination of the essential elements of risk such as assets, threats, vulnerabilities, safeguards, consequences and the likelihood of the threats materialising.

11.2 RESPONSIBILITY FOR RISK MANAGEMENT

- 11.2.1 The CM shall ensure that EMM has and maintains an effective system of risk management for the identification, consideration and avoidance of potential risks in the SCM system.
- 11.2.2 Aspects of risk management shall be allocated to the CFO, the SCM practitioners, the bid committees, the internal audit function and the Audit Committee, each of which shall ultimately be accountable to the CM or the Council for the discharge of their responsibilities.

11.3 APPLICATION OF RISK MANAGEMENT IN SCM

- 11.3.1 The CM or delegate shall determine EMM's risk appetite.
- 11.3.2 Risks shall be identified upfront on a case-by-case basis.
- 11.3.3 Risks shall be allocated to the party best suited to manage such risks.
- 11.3.4 EMM shall accept the cost of risks where the cost of transferring the risk is greater than that of retaining such risk and it shall transfer the risk where this is not the case.
- 11.3.5 EMM shall pro-actively manage risks and provide for adequate cover for residual risks.
- 11.3.6 The bid and contract documentation shall clearly and unambiguously state to whom the risk has been allocated and who should take responsibility for managing it.

11.4 GUARANTEES

- 11.4.1 Performance guarantees (also referred to as surety/security) should be commensurate with the degree of contractual risk to which EMM is exposed.
- 11.4.2 Performance guarantees should spread the cost of the risk of failure between the contracting parties and should be set at such a level that all EMM's costs relating to such failure are likely to be recovered.
- 11.4.3 It would be prudent to make adequate provision in all engineering and construction works contracts to ensure that monies are available to rectify defects.
- 11.4.4 Performance bonds in engineering and construction works contracts should be waived in low value, low risk contracts or where a third party carries the risk of failure in an acceptable manner.
- 11.4.5 Performance guarantees may only be accepted from a banking institution registered in terms of the Banks Act, Act No 94 of 1990 or from an insurer registered in terms of the Insurance Act, Act No 27 of 1943. The Financial Services Board may be contacted on 0800110443 to establish whether or not a company is a registered insurer.

11.5 RETENTION

- 11.5.1 Retention is an amount of money retained for a certain period to offset costs which may arise from the contractor's failure to comply fully with the contract.
- 11.5.2 Retention amounts are deducted from the value of the interim amounts inclusive of VAT due to contractors in construction works contracts. (Retention amounts are financial arrangements between the parties to a contract and are therefore not subject to VAT.)

Some forms of contract include the release of retention monies in interim and final payments. Others make these amounts due within a specified time after the employer's agent certifies completion or the end of the defects liability period in terms of the contract.

11.6 INSURANCE

- 11.6.1 EMM shall insure for procurement related physical risks and, where feasible, establish risk management programmes or make advance provision for losses associated with such risks. Suitable arrangements should also be made to ensure that insurance related excesses do not cause the non-participation or failure of emerging small and micro enterprises.

11.7 PROJECT MANAGEMENT

- 11.7.1 To be effective, risk management could be managed as a project where feasible, with written objectives, milestones and resources (people, time, finances, etc). The following aspects are highlighted:
- 11.7.2 Integrated control is essential to achieve the desired result.
- 11.7.3 The scope, timeframes, cost, other resources shall all be investigated and documented.
- 11.7.4 The quality of the outcome shall also be identified and quantified.
- 11.7.5 Risk management policies, plans and procedures, including duties and responsibilities, shall be effectively communicated to all concerned.
- 11.7.6 All real or potential risks shall be identified.

SECTION 12 DEMAND MANAGEMENT

12.1 DEMAND PLANNING

The demand management system shall ensure that the resources required to support

- 12.1.1 the strategic and operational commitments of EMM, are delivered at the correct time, at the right price and the right location, and that the quantity and quality satisfies the need of EMM. Therefore demand planning shall be executed.
- 12.1.2 Demand management shall translate the IDP and SDBIP of EMM into current and future needs and to cost and budget for it.
- 12.1.3 Establishment of a Cross-Functional Team
 - 12.1.3.1 Demand management or planning shall be a cross-functional exercise that brings the supply chain practitioner closer to the end-user and ensures that value for money is achieved.
 - 12.1.3.2 This exercise may involve representatives from finance; SCM representing procurement, logistics and disposal, technical specialists and end-users.
 - 12.1.3.2.1 The following cross-functional team should be considered:
 - 12.1.3.2.2 Relevant end-user.
 - 12.1.3.2.3 Financial expertise
 - 12.1.3.2.4 ICT expertise.
 - 12.1.3.2.5 SCM official responsible for demand management.
- 12.1.3 Demand management should be co-ordinated by SCM in consultation with end users.
- 12.1.4 Annual Demand Planning Process

- 12.1.4.1 The SCM division shall participate in the annual demand planning process.
- 12.1.4.2 Each user department shall perform an annual needs analysis of strategic objectives and programmes involving SCM and Finance to determine strategic sourcing that will ultimately provide best value for money.
- 12.1.4.3 The outcome of this activity should be a detailed planning document per department that outlines what goods, works or services should be procured, the manner in which they should be procured as well as the timelines to execute the procurement functions.
- 12.1.4.4 The departmental planning documents should then be consolidated by SCM demand management to reflect a final composite annual demand plan for the organisation.
- 12.1.4.5 From the consolidated demand plan, SCM should then develop annual procurement plans for quotes and for bids respectively. These procurement plans will guide the procurement activities of SCM during the course of each year.

12.1.5 PLANNING EXCEPTIONS

- ☐ If for any reason the EMM wishes to undertake unplanned procurement not provided for in the approved budgets, such procurement shall be approved as delegated by the CM and as set out herein before implementation. The amended budget would then incorporate this activity, once it is appropriately approved.

12.1.6 Assessment of Current and Future Needs

- 12.1.6.1 The annual procurement plans shall be analysed in terms of goods and services required over the short and medium term.
- 12.1.6.2 The frequency of the needs and the critical delivery dates shall be established to support the SCM processes and the budgetary process.
- 12.1.6.3 The official/s responsible for the demand management function shall coordinate the needs analysis and costing of each and every programme in EMM.

12.1.7 Assessment of Available Assets: Determine the Nett Requirements

- 12.1.7.1 The details of available stock, goods in transit, redundant and obsolete assets, and assets to be renewed as well as current support services has to be determined.
- 12.1.7.2 The following planning should be done
 - 12.1.7.2.1 Obsolescence planning.
 - 12.1.7.2.2 Renewal planning.
 - 12.1.7.2.3 Determining an asset strategy.
- 12.1.7.3 Asset management decisions should be integrated into the IDP and SDBIP planning process. Following an evaluation of lifecycle costs and the benefits and risks associated with each option, the strategy will identify the most appropriate approach for meeting programme delivery needs.

12.1.8 Analysis of Past Expenditure

- 12.1.8.1 An analysis of who the providers of goods and services and their locations should be made.
- 12.1.8.2 The prices paid should be determined.
- 12.1.8.3 The availability of relevant specifications/terms of reference should be established.
- 12.1.8.4 A spend analysis will provide input into sourcing strategies such as consolidated buying and to gain an understanding of historical spend patterns of different items/commodities and services.

- 12.1.9 Analysis of Supplying Industry
 - 12.1.9.1 In analysing the industry consider the following (but not limited to):
 - 12.1.9.2 Determine names of suppliers/service providers for the commodity.
 - 12.1.9.3 Determine the available specifications/terms of reference.
 - 12.1.9.4 Determine the location of goods as well as lead and delivery times.
 - 12.1.9.5 Analysis of pricing

- 12.1.10 Determine Inventory Management Inputs
 - 12.1.10.1 Determine minimum and maximum stock levels per item.
 - 12.1.10.2 Determine safety stock per item.
 - 12.1.10.3 Determine the reorder point per item.
 - 12.1.10.4 Determine the fill rate per item.
 - 12.1.10.5 Determine the economic order item per quantity.

- 12.1.11 Determine the Optimum Methods to Satisfy Needs
 - 12.1.11.1 Calculate the lifecycle cost (LCC) of each commodity.
 - 12.1.11.2 Determine cost saving levers
 - 12.1.11.3 Determine the net present value of each project
 - 12.1.11.4 Make use of economies of scale
 - 12.1.11.5 Determine total cost of ownership (TCO)
 - 12.1.11.6 The optimum method to satisfy needs shall be an evaluation of the procurement principles to determine the optimum method
 - 12.1.11.7 Calculate the lifecycle cost (LCC) of each commodity.

- 12.1.12 Formulation of Budget Inputs
 - 12.1.12.1 The cross-functional team is responsible to give inputs during the preparation step of the following budgets:
 - 12.1.12.1.1 The integrated development plan (3 years).
 - 12.1.12.1.2 The annual budget.
 - 12.1.12.1.3 The service delivery and budget implementation plan (1 year)

- 12.1.13 Procurement Plan/s for Acquisition Management (Procurement)
 - 12.1.13.1 The SCM directorate shall compile a procurement plan/s for acquisition management for the next financial year.
 - 12.1.13.2 The identified requirements in the SDBIP are drawn from and summarised in a procurement plan/s for acquisition for the next financial year.
 - 12.1.13.3 The SMT shall approve the procurement plan/s for acquisition.

- 12.1.14 Ad Hoc Needs Analysis
 - 12.1.14.1 Over and above the planned needs analysis, an ad hoc needs analysis has to be done for unplanned activities during the financial year.
 - 12.1.14.2 The cross-functional team will perform a need analysis on a case-by-case basis as and when required in order to determine a sourcing strategy for the appropriate product or service that will ultimately provide best value for money.
 - 12.1.14.3 The end-user shall establish the need and in the event of an acquisition in excess of the quotation threshold or a term contract, the total value of which exceeds the quotation threshold, perform a needs analysis in conjunction with the cross-functional team. Technical expertise may be co-opted to the team.

- 12.1.15 Promotion of Local Content
- 12.1.15.1 The EMM shall diligently promote local production and content for designated sectors in accordance with National Treasury's directives.
- 12.1.16 Scoping Through a Request for Information (RFI)
- 12.1.16.1 If sufficient information is not readily available with which to draft terms of reference/specifications, a request for information (RFI) process may be followed in order to obtain more market information.
- 12.1.16.2 The information collected in this fashion may not be used to lead to sourcing from one supplier only nor may it be used to write the ultimate specification/terms of reference around just one specific product.
- 12.1.16.3 It shall be clearly stated in the RFI that the result of this process will not lead to an award and does not constitute a commitment.
- 12.1.17 Determining Specifications/Terms of Reference
- 12.1.17.1 The Bid Specification Committee shall draw up clear specifications and terms of reference.
- 12.1.17.2 Include clear evaluation criteria prior to the invitation of the quotation/bid as offers may only be evaluated according to the criteria stipulated in the quotation/bid document.
- 12.1.17.3 It is the responsibility of the end-user through the facilitation of the Cross- functional Team and the Bid Specification Committee to compile detailed, clear and unambiguous specifications with which to source proposals.
- 12.1.18 Compilation of Specifications or Terms of References
- 12.1.18.1 Standards and technical specifications should promote the broadest possible competition, while assuring those critical elements of performance or other requirements for the goods and services being procured are achieved.
- 12.1.18.2 Specifications should be based on relevant characteristics and/or performance requirements. References to brand names, catalogue numbers, or similar classifications should be avoided. If it is necessary to quote a brand name the words "**or equivalent**" should be added after the reference. The specification should permit the acceptance of offers for goods which have similar characteristics and which provide performance at least equivalent to those specified. The quality required should not be overspecified to the extent that it will be impossible for others to offer such a product.

12.2 BILLS OF QUANTITIES

- 12.2.1 BOQ's are the most common form of pricing strategy used where the contractors undertakes construction works on the basis of full designs issued by the EMM.
- 12.2.2 A BOQ gives measured or estimated quantities and a brief description of the work to be performed under contract and may be developed for construction and related procurement.
 - 12.2.2.1.1 The total General items
 - 12.2.2.1.2 Construction work materials content
 - 12.2.2.1.3 Overheads

- 12.2.2.1.4 Risk allowances
- 12.2.2.1.5 Profit

12.3 PLANNING FOR PUBLICATION

- 12.3.1 EMM shall ensure that proper planning occurs at the beginning of each year by establishing as far as possible the publication dates for that year and the first dates for the following year.

12.4 STRATEGIC SOURCING

- 12.4.1 Determine Sourcing Strategy
 - 12.4.1.1 The objectives of strategic sourcing are:
 - 12.4.1.1.1 Saving costs (options of lease vs outright purchase; PPP's, BOT (build, operate, transfer) vs BOOT (build, etc.)
 - 12.4.1.1.2 Increase quality of services
 - 12.4.1.1.3 Standardise pricing
 - 12.4.1.1.4 Improve operational efficiency
 - 12.4.1.1.5 Access to new suppliers
 - 12.4.1.1.6 Creating partnership with suppliers.
 - 12.4.2 The advantages of strategic sourcing are:
 - 12.4.2.1 Improve the value to price relationship, by understanding category buying and management processes to identify improvement opportunities.
 - 12.4.2.2 Examine supplier relationships across the organisation by developing and implementing multi-year contracts with standardised terms and conditions
 - 12.4.2.3 Leverage on overall spending, through sharing best practices across the organisation.
 - 12.4.3 Sourcing strategies shall determine where goods and services may be obtained and through which selection mechanism/s.
 - 12.4.4 Sourcing strategies shall address value for money principles and shall be determined per commodity.
 - 12.4.5 Sourcing strategies shall be approved by the SMT or Council of EMM, as appropriate.
 - 12.4.6 For construction and infrastructure related projects, delivery management strategies, contracting arrangements and procurement arrangements shall be established.
 - 12.4.6.1 Delivery management strategies entail:
 - * Gathering of information
 - * Formulation of procurement objectives
 - * Making strategic delivery management decisions
 - * Deciding on delivery mode (project or program)
 - * Packaging of work
 - 12.4.6.2 Contracting arrangements involves:
 - * Allocating risk for work packages
 - * Establishing requirements for outsourced professional services
 - * Packaging of professional service contracts

- * Allocating risks for professional services contracts

12.4.6.3 Procurement arrangements entail:

- * Decide on quality strategies
- * Decide on procurement procedures
- * Decide on targeted procurement strategies
- * Decide on a bid evaluation procedures

12.5 DATABASE MANAGEMENT: ESTABLISHMENT OF A LIST OF ACCREDITED PROSPECTIVE PROVIDERS

12.5.1 Establishment Details

- 12.5.1.1 EMM shall establish and maintain a list of accredited prospective providers (preferred suppliers) per commodity for the purpose of obtaining written or verbal quotations and formal written price quotations.
- 12.5.1.2 EMM shall, at least once a year, through newspapers commonly circulating locally, the website of EMM and any other appropriate ways, invite prospective providers of goods and services to apply for evaluation and listing as accredited prospective providers (preferred suppliers).
- 12.5.1.3 In addition to the evaluation for compliance, EMM shall evaluate applications in respect of their relevance for listing in relation to their field of expertise, ability to deliver or any other criteria deemed critical in service delivery
- 12.5.1.4 The list of accredited prospective providers (preferred suppliers) shall be used effectively to promote BEE through the participation of black-owned enterprises, black empowered enterprises and black women-owned enterprises.
- 12.5.1.5 The listing criteria for accredited prospective providers (preferred suppliers) will be specified in the advertisement/s.
- 12.5.1.6 Prospective providers (preferred suppliers) whose names appear on the National Treasury's database as a person prohibited from doing business with the public sector, or whose names appear on the Register of Tender Defaulters will be disallowed from being listed on the database.

12.5.2 Updating of the List

- 12.5.2.1 The list of accredited prospective providers shall be updated at least quarterly to include additional prospective providers and any new commodities or types of services.
- 12.5.2.2 Prospective providers shall, however, be allowed to submit applications for listing at any time.
- 12.5.2.3 The CM or delegate shall prevent the listing of any prospective provider whose name appears on the National Treasury's database as person prohibited from doing business with the public sector.
- 12.5.2.4 A provider that did not qualify for placement on the list during the first round, may re-apply to be included in the list of accredited prospective providers if their status should change and it is proven that they will conform to the listing requirements.
- 12.5.2.5 Prospective providers may provide their details on a continuous basis for consideration by completing the application form, but they will only be considered for placement on the list on a quarterly basis, with effect from each following next quarter.

12.6 UTILISATION PROCEDURE

- 1261 For the various quotation thresholds, EMM shall invite accredited prospective providers (preferred suppliers), featured on the list of accredited prospective providers (in the relevant commodity, category and regions/areas), to submit a quote.
- 1262 The CM or delegate shall ensure that prospective providers submit a valid tax clearance certificate for all quotations above R 15 000.00 (Inclusive of all applicable taxes).
- 1263 The invitation of price quotations from the provider list (preferred suppliers) shall be done in such a manner that on-going competition amongst providers is promoted and the rotation principle shall be followed where there are sufficient suppliers listed on the database.

12.7 REMOVAL FROM THE LIST OF ACCREDITED PROSPECTIVE PROVIDERS (PREFERRED SUPPLIERS)

- 12.7.1 Accredited prospective providers may be removed from the list in the following instances:
- 12.7.1.1 on request,
 - 12.7.1.2 for non-compliance with relevant legislation,
 - 12.7.1.3 proven non-delivery or
 - 12.7.1.4 proven fraud and/or corruption.

SECTION 13 ACQUISITION MANAGEMENT: SYSTEM AND PROCESS HIERARCHY

13.1 SYSTEM OF ACQUISITION MANAGEMENT

- 13.1.1 Goods and services shall only be procured in accordance with authorised procurement processes.
- 13.1.2 Procurement of goods and services, either through quotations or through a bidding process, shall be within the threshold values as determined by National Treasury.
- 13.1.3 The CM shall not increase the different threshold values as determined by National Treasury, but may lower it.
- 13.1.4 Expenditure on goods and services may only be incurred in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget.

13.2 HIERARCHY FOR SATISFYING REQUIREMENTS

- 13.2.1 When a requirement becomes known, the noted hierarchy for satisfying requirements shall apply starting first with the hierarchy of processes of obtaining stock from internal sources and then only applying the hierarchy of processes of satisfying requirements from external sources.

13.3 OBTAIN THE REQUIREMENTS FROM PRE-ESTABLISHED SOURCES

- 13.3.1 There are a number of pre-established sources that may be considered:
 - 13.3.1.1 Items in stock
 - 13.3.1.2 Items on pre-established EMM contract
 - 13.3.1.3 List of redundant, obsolete materials and supplies
 - 13.3.1.4 Sourcing from other organs of state
 - 13.3.1.5 Procurement of goods and services under contracts secured by other organs of state

13.4 DIRECTIVES FOR SPECIFIC TYPES OF REQUIREMENTS

- 13.4.1 The specific rules guiding specific circumstances and products shall also be taken into account together with the hierarchies in the choice of processes.

13.5 PUBLIC PRIVATE PARTNERSHIPS (PPP's)

- 13.5.1 A PPP as a contract between a public sector institution/municipality and a private party, in which the private party assumes substantial financial, technical and operational risk in the design, financing, building and operation of a project
 - 13.5.1.1 Two types of PPPs are specifically defined:
 - 13.5.1.1.1 Where the private party performs an institutional/municipal function
 - 13.5.1.1.2 Where the private party acquires the use of state/municipal property for its own commercial purposes a PPP may also be a hybrid of these types.
 - 13.5.1.2 Payment in any scenario involves one of three mechanisms
 - 13.5.1.3 The institution/municipality paying the private party for the delivery of the service, or
 - 13.5.1.4 The private party collecting fees or charges from users of the service, or
 - 13.5.1.4.1 A combination of the above.
 - 13.5.1.4.2 EMM shall ensure that the Municipal PPP Regulations are complied with when goods or services are procured through public private partnerships or as part of a public private partnership.

13.6 BUILDING, ENGINEERING OR CONSTRUCTION WORKS

- 13.6.1 EMM shall apply the Construction Industry Development Board Act, Regulations and standards and instruction notes in respect of building, engineering or construction works projects of the municipality.
 - 13.6.1.1 EMM shall apply the CIDB's register of contractors to its procurement process.
 - 13.6.1.2 Contractor shall not be allowed to undertake, carry out or complete any construction works or portion thereof for EMM contracts, awarded in terms of competitive bids or quotations, unless he or she is registered with the CIDB and holds a valid registration certificate issued by the Board.
 - 13.6.1.3 All construction contracts above the prescribed tender value of R 200 000 (incl. VAT) shall be submitted to the CIDB for recording in the CIDB Contract Register.
 - 13.6.1.4 Part IV of the CIDB regulations prescribe the requirements referred to in section 16 and Part III prescribes the requirements listed in section 22 of the Act. These shall be adhered to by EMM in applicable projects

- 13.6.1.5 When EMM is soliciting competitive bids in the construction industry it shall publish that invitation to bid on the official CIDB website, in accordance with:
- 13.6.1.6 The Municipal SCM Regulations of 2005; and the latest approved CIDB Standard for Uniformity in Construction Procurement.
- 13.6.1.7 The CIDB Best Practice guidelines and instruction notes shall be followed in planning and executing construction projects.
- 13.6.1.7.1 MSCM Regulation 21(a)(iii) prescribes that EMM must take into account the requirements of the CIDB in the case of bid documentation relating to construction, upgrading or refurbishment of buildings or infrastructure.

13.6.2 Review of Major Construction Projects

- 13.6.2.1 The CIDB Infrastructure Gateway System (IGS) should be used to determine whether to proceed to the next stage of implementation.
- 13.6.2.2 The key focus of the review is to determine:

- ☐ Deliverability – the extent to which the project is likely to deliver the expected benefits within the declared cost/time/performance
- ☐ Affordability – the extent to which the level of expenditure and financial risk involved in a project can be taken up on, given the organisation's overall financial position
- ☐ Value for money – the optimum combination of whole life costs and quality to meet the user's requirements.

- 13.6.2.3 Furthermore for engineering and construction works contracts, risk management may necessitate the:

- ☐ Identification of preventative measures to avoid or reduce its effects
- ☐ Proceeding with a project on a stage-by-stage basis whilst initiating further investigation to reduce uncertainty through better information
- ☐ Consideration of risk transfer in contracting and pricing strategies, with attention to the motivational effects, and the control of risk allocation
- ☐ Consideration of risk transfer to insurers
- ☐ Setting and management of risk allowance in cost estimation, programmes and specifications, and
- ☐ Establishment of contingency plans to deal with risks, should they occur.

13.6.3 PROCUREMENT OF BANKING SERVICES

- 13.6.3.1 MSCM Regulation 30 states that:

- (1) A contract for the provision of banking services to a municipality or municipal entity -
 - (a) must be procured through competitive bids;
 - (b) must be consistent with sections 7 or 85 of the Act; and
 - (c) may not be for a period of more than five years at a time.
- (2) The process for procuring a contract for banking services must commence at least nine months before the end of an existing contract.
- (3) The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper in terms of regulation 22(1). Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No, 94 of 1990).

13.6.4 PROCUREMENT OF GOODS NECESSITATING SPECIAL SAFETY ARRANGEMENTS

13.6.4.1 MSCM Regulation 33 states that:

- (1) A supply chain management policy must restrict the acquisition and storage of goods in bulk (other than water) which necessitates special safety arrangements, including gases and fuel.
- (2) Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership and cost advantages for the municipality or municipal entity.

13.6.5 PROUDLY SA CAMPAIGN

- 13.6.5.1 MSCM Regulation 34 states that a supply chain management policy must stipulate to what extent the municipality or municipal entity supports the Proudly SA Campaign.
- 13.6.5.2 EMM shall ensure that it supports the above campaign in all its procurement activities and as far as possible goods, works or services shall be procured locally.

13.6.6 APPOINTMENT OF CONSULTANTS

- 13.6.6.1 EMM shall apply the National Treasury's instructions in respect of the appointment of consultants in so far as they apply to consultancy procurement.

13.6.7 DISPOSALS AND RENTALS OR LEASES

- 13.6.7.1 Bids in these categories are dealt with in the same manner as other bids with the exception that since revenue is applicable; the objective is to receive the highest bidding price.

13.6.8 LONG TERM CONTRACTS

- 13.6.8.1 In order to improve efficiencies, EMM may in certain circumstances, enter into term contracts with a duration period exceeding one year.
- 13.6.8.2 Section 33 of the MFMA shall be complied with for all bids that will impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year.

13.7 PROCURE REQUIREMENTS FROM EXTERNAL SOURCES

13.7.1 RANGE OF PROCURMENT PROCESSES: MONETARY THRESHOLDS

13.7.1.1 The monetary thresholds (all applicable taxes included), are as follows:

13.7.1.1.1 Petty cash transactions up to a monetary value of R 2 000.00 (all applicable taxes included).

13.7.1.1.2 Written quotations above R2 000 and up to R30 000 (all applicable taxes included).

13.7.1.1.3 Formal written price quotations above R30 000 and up to R200 000 (all applicable taxes included).

13.7.1.1.4 Competitive bidding processes for:

13.7.1.1.5 Procurement above a transaction value of R 200 000 (all applicable taxes included), and.

13.7.1.1.6 The procurement of long term contracts.

13.7.1.1.7 The CM may lower, but not increase the above thresholds and may direct that: Written quotations be obtained for any specific procurement of a transaction value lower than R 2 000 (all applicable taxes included)

13.7.1.1.8 Formal written quotations be obtained for any specific procurement of a transaction value lower than R 30 000 (all applicable taxes included)

13.7.1.1.9 A competitive bidding process be followed for any specific procurement of a transaction value lower than R 200 000 (all applicable taxes included).

13.8 REQUIREMENTS FOR LOCAL CONTENT

13.8.1 The EMM shall invite, evaluate and award bids for the promotion of local production and content for the designated sectors in accordance with National Treasury's directives.

13.8.2 Section 4.3 of this policy shall be taken into account when local content matters are under consideration.

13.9 REQUIREMENTS NOT AVAILABLE FROM A LOCAL SUPPLIER (PROCUREMENT FROM ABROAD)

13.9.1 Should a requirement not be available from a local supplier within South Africa, international sourcing may be considered.

13.9.2 Services provided only by tertiary institutions can be procured through bidding process. Such institution will be required to submit their B-BBEE status.

13.10 DEVIATION FROM OFFICIAL PROCUREMENT PROCESSES

- 13.10.1 In terms of MSCM Regulation 36(1), the CM may dispense with the official procurement processes established by the policy to procure any required goods or services through any convenient process, which may include direct negotiations, but only:
- 13.10.1.1 For emergency procurement.
 - 13.10.1.2 If such goods and services are produced or available from a single provider only.
 - 13.10.1.3 For the acquisition of special works of art or historical objects where specifications are difficult to compile
 - 13.10.1.4 Acquisition of animals for zoos, or
 - 13.10.1.5 In any other exceptional case where it is impractical or impossible to follow the official procurement processes. The following will be considered under 13.10.1.5 these is not exhaustive list
 - (i) Subscription, includes newspapers on condition they are not acquired through an agent.
 - (ii) Licence software on condition that the original asset was acquired through competitive bidding.
 - (iii) Accommodation include workshops, conferences and lekgotla. Source minimum three quotations directly from the venue not through an agents.
 - (iv) Maintenance for fleets must be part of the original acquisition of the vehicle on condition that the original vehicle was acquired through competitive bidding.
 - (v) Direct advertisement with media houses, on condition that there is no agents. In case of agents follow applicable competitive bidding.
 - (vi) Art work, artists, condition that there is a rotation process
- 13.10.2 The CM may ratify any minor breaches of the procurement processes by an official or a committee acting in terms of delegated powers or duties which are purely of a technical nature.
- 13.10.3 The CM shall record the reasons for any deviations in terms of sub-regulation 36 (1)(a) and (b) and report them to the next meeting of Council and include it as a note in the financial statements.
- 13.10.4 EMM may procure the items listed below via a single source route:
- 13.10.4.1 Library books and magazines may be procured directly from the publisher
 - 13.10.4.2 Newspaper advertisements may be placed directly with the publishing media and not via agents.
- 13.10.5 Sub-regulation 36(2) does not apply to the procurement of goods and services contemplated in Regulation 11(2).

SECTION 14 ACQUISITION MANAGEMENT: RANGE OF PROCUREMENT PROCESSES AND THRESHOLDS EXCLUDING CONSULTANTS

14.1 PETTY CASH TRANSACTIONS UP TO R2 000 (ALL APPLICABLE TAXES INCLUDED)

- 14.1.1 In accordance with the petty cash policy, EMM may procure supplies without inviting price quotations or bids up to a transaction value of R2000 (all applicable taxes included).
- 14.1.2 EMM shall ensure that a petty cash policy and procedures are in place.

14.2 WRITTEN QUOTATIONS ABOVE R 2 000 AND UP TO R30 000 (ALL APPLICABLE TAXES INCLUDED)

- 14.2.1 At least 3 written quotations shall be obtained, where applicable, preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers in the correct category, provided that if quotations are obtained from providers not on the list, such providers shall meet the listing criteria required in MSCM Regulation 14(1)(b) and (c).
- 14.2.2 The invitation of written quotations from the provider list (preferred suppliers) shall be done in such a manner that on-going competition amongst providers is promoted and the rotation principle shall be followed where there are sufficient suppliers listed on the database.
- 14.2.3 If it is not possible to obtain at least written three quotations, the reasons shall be recorded and reported quarterly to the CM or to another official designated by the CM.
- 14.2.4 The CM or delegate shall record the names of the potential providers requested to provide such quotations with their quoted prices.
- 14.2.5 An order may be placed only against written confirmation from the selected provider.
- 14.2.6 The delegated official, in conjunction with SCM, shall ensure that all quotation documentation, quotations received from bidders, approvals, letters of award and any other related relevant documentation are maintained in a standardised filing system for proper record keeping purposes.
- 14.2.7 The CM shall take all reasonable steps to ensure that the procurement of goods and services is not abused.

14.3 FORMAL WRITTEN PRICE QUOTATIONS ABOVE R30 000 UP TO R200 000 (ALL APPLICABLE TAXES INCLUDED)

- 14.3.1 Requirements may be procured by inviting formal written price quotations from as many at least three (3) different providers whose names appear on the list of accredited prospective providers of the municipality.
- 14.3.2 The request for quotations shall indicate the closing date and time, the address where it shall be submitted, the validity period and the address where the supplies shall be delivered or the services shall be rendered. The request for quotations shall contain a sufficiently detailed specification. It may also include special conditions of contract if required over and above the normal conditions.
- 14.3.3 The invitation of formal written quotations from the provider list (preferred suppliers) shall be done in such a manner that on-going competition amongst providers is promoted and the rotation principle shall be followed where there are sufficient suppliers listed on the database.
- 14.3.4 Where no suitable accredited providers are available from the list, quotations may be obtained from other possible providers not on the list, provided that such providers meet the provider listing criteria.
- 14.3.5 If it is not possible to receive at least 3 quotations, the reasons shall be recorded and approved by the CFO or delegate.
- 14.3.6 The CM or delegate shall record the names of the potential providers requested to provide such quotations with their quoted prices.
- 14.3.7 The prescripts of the PPPFA and its Regulations shall be applied to all procurement equal to or above R 30 000 (all applicable taxes included).
- 14.3.8 All procurement in excess of R30 000 and up to R200 000 (all applicable taxes included) that are procured by means of formal written price quotations shall also be advertised for at least seven (7) calendar days on EMM's official notice board and on its website, provided that tax clearance certificates shall not apply to procurement up to R 15 000 (all applicable taxes included)
- 14.3.9 A designated/delegated official referred to above shall within three (3) days of the end of each month report to the CFO on any approvals given during that month by that official in terms of that delegation.
- 14.3.10 The CFO shall on a monthly basis be notified in writing of all quotations accepted by an official acting in terms of a sub-delegation.

- 14.3.11 The delegated official, in conjunction with SCM, shall ensure that all quotation documentation, quotations received from bidders, approvals, letters of award and any other related relevant documentation are maintained in a standardised filing system for proper record keeping purposes.

14.4 COMPETITIVE BIDDING: ABOVE R200 000 (ALL APPLICABLE TAXES INCLUDED)

- 14.4.1 Competitive bidding is where open competition exists and the requirement is advertised on a timely basis for all prospective bidders to participate and therefore allowing fair competition.
- 14.4.2 Goods or services above a transaction value of R 200 000 (all applicable taxes included) and long term contracts may be procured by EMM, only through a competitive bidding process.
- 14.4.3 Any invitation to prospective providers to submit bids shall be by means of a public advertisement in newspapers commonly circulating locally, the website of EMM or any other appropriate medium, e.g. EMM notice boards, and may include an advertisement in the Government Tender Bulletin.
- 14.4.4 No requirement for goods or services above an estimated transaction value of R 200 000 (all applicable taxes included)), may deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.
- 14.4.5 Competitive bidding also includes two-stage bidding, pre-qualifying bidders and the establishment of a list of approved providers.
- 14.4.6 ESTABLISHMENT OF A LIST OF APPROVED PROVIDERS
- 14.4.6.1 Where goods or services of a specialised nature are required on a recurring basis, a list of approved providers for the supply of the goods or services may be established through the competitive bidding process.
- 14.4.6.2 The intention to establish a list of approved providers shall be published in a local newspaper and on the website of EMM and if so decided; the Government Tender Bulletin and the closing time and date for inclusion in the list of approved providers shall be indicated.

- 14.4.6.3 Once the list of providers has been approved by the relevant award structure, only the successful applicants shall be directly approached, depending on the circumstances, either by requesting quotations (procurement below R200 000) on a rotation basis or according to the limited bidding procedure when goods or services are required, with the exception that the requirement is not advertised again. All other generic regulatory criteria shall be used in evaluation.
- 14.4.6.4 This list of approved providers shall be updated regularly, at least once a year.

14.5 DIRECT NEGOTIATION

- 14.5.1 Direct negotiations shall only be permitted after approval by the CM or the delegate and shall be conducted in such a manner that none of the stakeholders are advantaged or prejudiced.
- 14.5.2 Care shall be taken to ensure that such a process does not allow the bidder concerned a second (unfair) opportunity and is not to the detriment of any other bidder.
- 14.5.3 Direct negotiation must not lead to higher pricing than the bid as submitted
- 14.5.4 Minutes of such negotiations shall be kept for record purposes
- 14.5.5 Direct negotiations may only take place under the following circumstances:
- ☐ Owing to a catastrophic event, there is an urgent need for the goods or services (an emergency), making it impractical to use other methods of procurement because of the time involved in using those methods. Proceeding with a project on a stage-by-stage basis whilst initiating further investigation to reduce uncertainty through better information
 - ☐ In cases where preferred bidders were identified as preferred bidders through a competitive bidding process. Preferred bidders are shortlisted for specific services where urgent/emergency procurement could be required. Consideration of risk transfer to insurers
 - ☐ In the case of competitive negotiation because of the technical character of the goods or construction, or because of the nature of the services, it is necessary for the procuring entity to negotiate with suppliers or service providers. Thus in the aforementioned case the first round of a two-stage bidding process has taken place where inter alia capacity and acceptability was established.

14.6 PROCUREMENT FROM ABROAD

- 14.6.1 EMM may procure from abroad if it can be certified in writing by the requestor and SCM that:
- 14.6.2 The product/service cannot be sourced locally or through local representatives and that no other similar product will serve the purpose.
- 14.6.3 That a local sourcing process has been run without any success, by obtaining approval from the CM or delegate.
- 14.6.4 The prices of the locally available supply/service are exorbitant.
- 14.6.5 The certification must follow a rigorous process
- 14.6.6 EMM must not take excessive currency position where possible

14.7 PROCUREMENT IN RESPECT OF GRANTS FROM DONORS

- 14.7.1 The EMM shall utilise funds in accordance with donors' procurement procedures in cases where technical assistance agreement prescribes them to do procurement according to the donors' procedures.
- 14.7.2 The EMM shall adhere to the prescripts of the PPPFA and its regulations where donors do not require them to do procurement according to donors' procedures.
- 14.7.3 The EMM shall adhere to the prescripts of the PPPFA and its regulations where projects are partially financed from donor funds and in accordance with a technical assistance agreement.

14.8 TERM CONTRACTS

- 14.8.1 A term contract is a contract entered into for the supply of goods, the rendering of services or the disposal of movable assets over a specified period of time for the minimum period of one year. This is regarded as a good sourcing strategy in relevant circumstances to improve efficiencies. Refer to section 22, paragraph 16 of this policy on contract management.
- 14.8.2 A period of time for completion of the contract shall always be prescribed in the relevant bid documents.
- 14.8.3 EMM may enter into specific term contracts, which are arranged for specific repetitive requirements.

14.9 TWO-STAGE BIDDING PROCESS

- 14.9.1 A two-stage bidding process may be followed for -
- 14.9.1.1 large complex projects;
 - 14.9.1.2 projects where it may be undesirable to prepare complete detailed technical specifications; or
 - 14.9.1.3 long term projects with a duration period exceeding three years.
- 14.9.2 In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.
- 14.9.3 In the second stage final technical proposals and priced bids should be invited.

SECTION 15 ACQUISITION MANAGEMENT: RANGE OF PROCUREMENT PROCESSES AND THRESHOLDS

APPOINTMENT OF CONSULTANTS

15.1 INTRODUCTION

- 15.1.1 The normal policy and procedures apply to the appointment of consultants.
- 15.1.2 The CM may, in terms of MSCM Regulation 35(1), procure consulting services provided that any Treasury Guidelines in respect of consulting services are taken into account when such procurements are made.
- 15.1.3 The provision of consultancy services shall be procured through competitive bidding if:
- 15.1.3.1 The value exceeds R 200 000 (all applicable taxes included)
 - 15.1.3.2 The duration exceeds one year.
- 15.1.4 Bidder must furnish the municipality with particulars of:
- 15.1.4.1 All consultancy services provided to an organ of state in the last five years
 - 15.1.4.2 Any similar consultancy services provided to an organ of state in the last five years.
- 15.1.5 The CM or delegate shall ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing, system or process designed or devised, by a consultant in the course of the consultancy service is vested in EMM.

15.2 MINIMUM REQUIREMENTS WHEN APPOINTING CONSULTANTS

- 15.2.1 When appointing consultants, it is necessary to strive to satisfy the following minimum requirements:
- 15.2.2 Meeting the highest standards of quality and efficiency.
- 15.2.3 Obtaining advice that is unbiased, that is, being delivered by a consultant acting

independently from any affiliation, economic or otherwise, which may cause conflicts between the consultant's interests and those of government.

- 15.2.4 Ensuring the advice proposed, or assignment executed, meets the ethical principles of the consultancy professions.

15.3 GENERAL APPROACH

- 15.3.1 The CM or the delegate should be responsible for preparing and implementing the project, for selecting the consultant, awarding and subsequently administering the contract. While the specific rules and procedures to be followed for selecting consultants depend on the circumstances of the particular case, at least the following four major considerations should guide the CM or delegate in the selection process:

15.3.1.1 The need for high-quality services.

15.3.1.2 The need for economy and efficiency.

15.3.1.3 The need to give qualified consultants an opportunity to compete in providing the services.

15.3.1.4 The importance of transparency in the selection process.

- 15.3.2 In the majority of cases, these considerations can best be addressed through competition among firms in which the selection is based both on the quality of the services to be rendered and on the cost of the services to be provided (Quality- and Cost-Based Selection [QCBS]) as described below. However, there are cases when QCBS is not the most appropriate method of selection. For complex or highly specialised assignments or those that invite innovations, selection based on the quality of the proposal alone (Quality-Based Selection [QBS]), would be more appropriate.

- 15.3.3 The method of selection is determined by the scope of the assignment, the quality of the service, the complexity of the assignment and whether assignments are of a standard or routine nature. Other methods of selection and the circumstances in which they are appropriate are outlined below.

- 15.3.4 When appropriate, EMM may include under the special conditions of contract, the following or similar condition:

"A service provider may not recruit or shall not attempt to recruit an employee of the principal for purposes of preparation of the bid or for the duration of the execution of this contract or any part thereof".

- 15.3.5 CONFLICT OF INTEREST

- 15.3.5.1 Consultants are required to provide professional, objective and impartial advice and at all times hold the client's interests paramount, without any consideration for future work and strictly avoid conflicts with other assignments or their own corporate interests. Consultants should not be hired for any assignment that would be in conflict with their prior or current obligations to other clients, or that may place them in a position of not being able to carry out the assignment in the best interest of EMM or the State. Without limitation on the generality of this rule, consultants should not be hired under the following circumstances:

- 15.3.5.1.1 A firm, which has been engaged by EMM to provide goods or works for a project and any of its affiliates, should be disqualified from providing consulting services for the same project. Similarly, a firm hired to provide consulting services for the preparation or implementation of a project and any of its affiliates, should be disqualified from subsequently providing goods or services related to the initial assignment (other than a continuation of the firm's earlier consulting services as described below) for the same project, unless the various firms (consultants, contractors, or suppliers) are performing the contractor's obligations under a turnkey or design-and-build contract.
- 15.3.5.1.2 Consultants or any of their affiliates should not be hired for any assignment, which by its nature, may be in conflict with another assignment of the consultants. As an example, consultants assisting a client in the privatisation or set-up of public assets should not purchase, nor advise purchasers of such assets or become part of the set-up.

SECTION 16 ACQUISITION MANAGEMENT: QUOTATION/BID COMPILATION AND ISSUING

16.1 LANGUAGE OF QUOTATION/BID DOCUMENTS

EMM shall compile all documentation in English.

16.2 CALLING FOR BIDS

- 1621 Bids shall be invited by the SCM directorate unless other groups have been delegated to do so.

16.3 ADVERTISING OF BIDS

- 1631 To ensure exposure to potential bidders, bids must be advertised in a commonly circulated newspaper in the municipal area of jurisdiction, the EMM website, eTender Publication Portal, an official EMM notice board or in any other appropriate way. Bids may also be advertised in the Government Tender Bulletin if deemed appropriate by the CM or delegate.
- 1632 The prescripts of the Construction Industry Development Board (CIDB), require that bids relating to the construction industry be advertised on the CIDB iTender System.
- 1633 All requirements in excess of R 30 000 (all applicable taxes included) that are to be procured by means of formal written price quotations, shall be advertised for at least seven (7) days on the EMM website and on an official EMM notice board.
- 1634 Other relevant media may be considered to ensure that the target market is reached, if the local newspapers and the EMM website are regarded as not sufficient to reach the target market. Cost shall be a consideration.
- 1635 The information of a public advertisement shall contain:
- 16.3.5.1 The closing date for the submission of bids, which may not be less than 30 days in the case of transactions over R 10 million (all applicable taxes included), or which are of a

- long term nature, or 14 days in any other case, from the date on which the advertisement is placed in the media
- 16.3.5.2 A statement that bids may only be submitted on the bid documentation provided by the municipality.
- 16.3.5 The CM or delegate may determine a closing date for the submission of bids which is less than the 30 or 14 days requirements, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.
- 16.3.6 Bids submitted shall be sealed. Where bids are requested in electronic format, such bids shall be supplemented by sealed hard copies.

16.4 CLOSING TIME OF BIDS

- 16.4.1 According to the GCC closing time means the latest date and hour specified in the bid documents for the receipt of bids.
- 16.4.2 Bids of EMM normally close at 10:00 on the day indicated in the bid documents or as alternatively indicated in the documentation.
- 16.4.3 The closing of bids shall be strictly observed.

16.5 DETERMINING THE CLOSING PERIOD

- 16.5.1 Normal closing period from the date on which the advertisement is placed in the relevant publications, is not less than:
- 16.5.1.1 30 days in the case of transactions over R10 million (all applicable taxes included) or in the case of transactions of a long term nature.
- 16.5.1.2 14 days in any other case.
- 16.5.1.3 As a minimum requirement, where goods are to be imported, bids will close at least 6 weeks from the date of the publication.
- 16.5.1.4 The CM or delegate may determine a shorter than specified closing date, but only if such shortened period can be justified on the grounds of emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.
- 16.5.1.5 Approval for the shortening or lengthening of the closing period shall be obtained in accordance with the CM's delegated powers. Reasons for the deviation shall be documented and fully motivated.
- 16.5.1.6 The principle of allowing bidders sufficient time to prepare comprehensive bids shall be observed.
- 16.5.1.7 Where a shorter period is involved, care shall be taken that a reasonable time is allowed for the preparation of the bidder's offer.
- 16.5.1.8 A longer closing period may be necessary where a product is to be imported or a complex response is required from bidders. Where complex supply contracts, particularly those requiring refurbishing of existing works, items or equipment are involved, this period should generally not be less than eight weeks to enable bidders to conduct investigations before submitting their bids. In such cases, pre-bid information meetings for the bidders to seek clarifications and site visits may be necessary. EMM should provide reasonable access to project sites for such visits.

16.6 DETERMINING THE VALIDITY PERIOD

- 16.6.1 The validity period specified in the quote/bid documentation shall allow EMM sufficient time to finalise the evaluation and award of the quotation/bid.
- 16.6.2 The validity period shall be determined before the quote/bid is published and shall be clearly specified in the bid documentation.
- 16.6.3 Generally validity periods shall be reasonable and shall depend on the item or commodity being procured.
- 16.6.4 Alternatively, quotes shall be valid for at least 21 calendar days and bids shall be valid for at least 90 calendar days from the closing date of the quote/bid. A longer period may be set for bids, if problems with the evaluation are envisioned, but preferably not longer than 120 calendar days. Approval is to be obtained within the CM's delegated powers for periods shorter than 21 or 90 calendar days for quotes and bids respectively.
- 16.6.5 SCM shall ensure that an extension of validity is requested in writing from all bidders before the validity expiry date.
- 16.6.6 The failure of SCM to ensure that the validity of quotes/bids still under evaluation is extended before validity expiry shall amount to negligence on the part of the SCM practitioner and SCM acquisition manager dealing with the quote/bid.

16.7 AVAILABILITY OF BID DOCUMENTS

- 16.7.1 Bid documents shall be ready and available before the requirement is advertised.
- 16.7.2 Bid documents may be collected by or may be e-mailed or posted to prospective bidders.

16.8 SALE OF BID DOCUMENTS

- 16.8.1 EMM shall determine under which circumstances it shall sell its bid documents.
- 16.8.2 All suppliers shall in the relevant circumstances, pay a non-refundable pre- determined sum of money for all bid documents. This sum shall be determined within a predetermined accountable framework. EMM has resolved to charge a fee for bid documents.

16.9 RESPONSES RECEIVED

- 16.9.1 EMM shall maintain a register/list of responses to the advertisement or the individuals/organisations targeted in the case of quotations.
- 16.9.2 The response list shall contain the following information:
 - 16.9.2.1 Bid number.
 - 16.9.2.2 Name of the bidder to whom documents were issued to.
 - 16.9.2.3 Name of the person/organisation that collected the bid on behalf of the bidder.
 - 16.9.2.4 Name of the person/organisation on whose behalf the document is collected, the phone number, the fax number and contact person of the prospective bidder.
 - 16.9.2.5 The date and time the document was collected or the date the document was posted/e-mailed.
- 16.9.3 The same particulars as mentioned above, where applicable, shall also be collected where bid documents are requested by phone.

16.10 ELEMENTS FOR INCLUSION IN BID DOCUMENTS

- 16.10.1 EMM shall promote uniformity by standardising bid documents where possible.
- 16.10.2 Bid documentation including the general conditions of bid and contract, shall at least be in accordance with the instructions of National Treasury.
- 16.10.3 Bidders shall all receive the same information in documentation and should be assured of an equal opportunity to obtain additional information on a timely basis to ensure fairness.
- 16.10.4 Where feasible, large requirements may be divided into smaller more manageable requirements to accommodate EMEs.
- 16.10.5 Where feasible, promote subcontracting and joint ventures with EMEs.
- 16.10.6 Bid documentation shall include evaluation and adjudication criteria, including the criteria prescribed in the PPPFA and the BBBEE Act.
- 16.10.7 The CM shall establish the criteria to which bid documentation for a competitive bidding process shall comply.
- 16.10.8 QUOTATION/BID DOCUMENTATION PACK
 - 16.10.8.1 The quotation/bid documentation pack shall consist of the following:
 - 16.10.8.2 Covering letter, which should at least include the bid number, description of the requirement, name of the organisation by whom it is required and the closing date and time.
 - 16.10.8.3 Standard bid documents that include, but are not limited to the following:
 - ☐ Invitation to Bid, which is the bidders' consent if signed to enter into a contract

under the conditions specified in the bid documents, should the offer be accepted.

- ☐ Tax Clearance requirements.
- ☐ Relevant pricing schedule.
- ☐ Declaration of interest.
- ☐ Declaration of Bidder's Past SCM Practices
- ☐ Certificate of independent bid determination
- ☐ Preference point claim form in terms of the Preferential Procurement Regulations, 2011.
- ☐ Specification/TOR.
- ☐ General conditions of contract.
- ☐ Special contract conditions.
- ☐ Copy of the formal contract or service level agreement (SLA) where applicable.

16.10.8.3.1 When functionality will be evaluated the following shall be clearly specified in the invitation to quote/bid:

- ☐ Evaluation criteria for measuring functionality
- ☐ Weight of each criterion
- ☐ Applicable values
- ☐ Minimum qualifying score for functionality.

16.10.8.3.2 In terms of the CIDB standard for uniformity in Construction procurement, the following documentation may be used in engineering and construction works:

- ☐ General Conditions of Contract for Construction Works (GCC 2004)
- ☐ Conditions of Contract for Construction, Conditions of Contract for Plant and Design-Build, Conditions of Contract for FIDIC EPC/Turnkey Projects or short Form of Contract.
- ☐ JBCC series 2000 Principal Building Agreement or Minor Works Agreement
- ☐ NEC3 Engineering and Construction short Contract or NEC3 Engineering and Construction Contract.

16.11 PRE-BID INFORMATION SESSIONS

16.11.1 If an information session is held, minutes of the meeting may be provided to all prospective bidders in the case of non-compulsory session and only to those who attended in the case of compulsory sessions. Any additional information, clarification, correction of errors, or modifications of bid documents should be sent to each recipient of the original bid documents in sufficient time before the closing date and time for receipt of bids to enable bidders to take appropriate actions.

16.12 CHANGING OF INFORMATION BEFORE CLOSING TIME

16.12.1 It is preferable to cancel a bidding invitation and to invite fresh bids if conditions or the specification or any other information have to be materially changed before the closing time or if mistakes are discovered in the documents before the closing time.

16.13 POSTPONEMENT OF CLOSING DATE

16.13.1 The closing date may be postponed only if all prospective bidders can be advised of the postponed date in writing before the original closing date.

16.13.2 In the case of an advertised bid invitation, the closing date may be postponed only if the postponed date can be advertised in the Government Tender Bulletin and other

media where applicable, before the original closing date.

SECTION 17 RECEIVING AND OPENING OF RESPONSES

17.1 RECEIVING AND OPENING PROCEDURES FOR QUOTATIONS UP TO R200 000 (ALL APPLICABLE TAXES INCLUDED)

- 17.1.1 A fair and transparent process shall be followed for the closing, receiving, opening and processing of quotations.
- 17.1.2 No person may interfere or tamper with any bids, quotations, or contracts after their submission.
- 17.1.3 WRITTEN QUOTATIONS ABOVE R2 000 UP TO R30 000 (ALL APPLICABLE TAXES INCLUDED)
 - 17.1.3.1 Providers shall be requested to submit quotations in writing.
 - 17.1.3.2 The delegated official shall request and receive the quotations.
 - 17.1.3.3 However, the award shall be approved by a different delegated official at a higher post level than the requestor.
- 17.1.4 FORMAL WRITTEN PRICE QUOTATIONS ABOVE R30 000 AND UP TO R200 000 (ALL APPLICABLE TAXES INCLUDED)
 - 17.1.4.1 Quotations shall be submitted in writing preferably by hand or per mail.
 - 17.1.4.3 Bid box procedures shall be used.

17.2 RECEIVING AND OPENING OF BIDS ABOVE R200 000 (ALL APPLICABLE TAXES INCLUDED)

- 17.1.1 INTRODUCTION
 - 17.1.1.1 A fair and transparent process shall be followed for the closing, receiving, opening and processing of bids.
 - 17.1.1.2 Bidders shall be allowed to submit bids by mail or by courier or by hand.
 - 17.1.1.3 A bid box shall be visible on the premises of EMM and shall be accessible between 08:00 and 16:00 Mondays to Fridays excluding public holidays.
 - 17.1.1.4 Bids may be opened in public.
 - 17.1.1.5 Bids shall be opened at the same time or as soon as possible after the period for the submission of bids has expired.
 - 17.1.1.6 Any bidder or member of the public has the right to request that the names of the bidders who submitted bids before the closing date and time, shall be read out and, if practical, also each bidder's total bidding price.

- 17.1.1.7 The CM or delegate shall:
 - 17.1.1.7.1 Record in a register all bids received before the closing date and time.
 - 17.1.1.7.2 Make the register available for public inspection.
 - 17.1.1.7.3 Publish the entries in the register and the bid results on the website of EMM.
- 17.1.8 Bids shall be date stamped to indicate the date and time of receipt of bids.
- 17.1.9 A lockable facility for the storing of bids shall be available. Bids received by post, courier or similar service should be administratively dealt with and immediately be channelled to the physical address where bids are to be received.
- 17.1.10 Bids received after the closing time at the physical address indicated in the bid document, shall be considered as late and be dealt with accordingly.

17.3 ACCEPTANCE OF QUOTATIONS

- 17.3.1 Written quotations received by facsimile transmitter, telegram, telex, e-mail or similar media may be accepted as valid if received before the closing time.

17.4 ACCEPTANCE OF BIDS

- 17.4.1 Bids received by facsimile transmitter, telegram, telex, e-mail or similar media do not meet the requirements and shall be summarily rejected.
- 17.4.2 Only original bid documents, which are submitted in the prescribed manner and where all the essential forms are originally signed in ink before submission, may be accepted as valid.
- 17.4.3 Bidders shall be allowed to submit bids by mail, by courier or by hand into the bid box or at the physical address of EMM (reception, over the counter at the SCM directorate as applicable) before the closing time of the bids.
- 17.4.4 All bids will then be kept unopened in safe custody until the closing date and time of the bids.
- 17.4.5 CONFIDENTIALITY
 - 17.4.5.1 After public opening of bids, information relating to the examination, clarification and evaluation of bids and recommendations concerning awards should not be disclosed to bidders or other persons not officially concerned with the process, until the successful bidder is notified of the award.
- 17.4.6 BIDS RECEIVED LATE
 - 17.4.6.1 Bids are late if they are received at the address indicated in the bid documents after closing date and time.
 - 17.4.6.2 Bids received late shall not be considered and shall be returned unopened to the bidder.
 - 17.4.6.3 Where no bid or no acceptable bid has been received, the requirement has to be re-advertised.

SECTION 18 EVALUATION PROCESS

18.1 GENERAL

- 18.1 All bids duly lodged shall be taken into consideration and evaluated.
- 18.2 EMM shall base evaluation solely on an examination of the relevant statutory and/or predetermined evaluation criteria.
- 18.3 Evaluation criteria shall promote the areas of finance (commerce), technical compliance/ability and preferential procurement.
- 18.4 Members involved in the evaluation process shall be honest, fair, impartial, and transparent.
- 18.5 Bid Evaluation Committees should be familiar with and adhere to prescribed legislation, directives and procedures in respect of SCM.
- 18.6 All evaluators/members of Bid Evaluation Committees should be cleared at the level of "CONFIDENTIAL" and should be required to declare their financial interest annually.
- 18.7 No person should interfere with the SCM system of EMM; or amend or tamper with any quotation/bid after its receipt.

18.2 COMPLIANCE CHECK PROCEDURES

- 18.2.1 Before actual evaluation the SCM directorate, in conjunction with the relevant user department, shall do a compliance check that the quotation/bid documentation complies with the mandatory conditions and other specific predetermined bid conditions and that all required forms, sureties and information are submitted, completed in full and are legible.

18.3 MANDATORY REASONS FOR REJECTION

- 18.3.1 EMM shall not consider a quotation or bid unless the provider who submitted the quotation or bid
 - 18.3.1.1 Has furnished EMM with that provider's:
 - 18.3.1.2 Full name
 - 18.3.1.3 Identification number or company or other registration number
 - 18.3.1.4 Tax reference number and VAT registration number, if any.
- 18.3.2 Has authorised EMM to obtain a tax clearance from SARS that the providers tax matters are in order, and
- 18.3.3 Has indicated:
 - 18.3.3.1 Whether he/she is or has been in the service of the state in the past twelve (12) months
 - 18.3.3.2 If the provider is not a natural person, whether any of its Directors, managers, principal shareholders or stakeholder is or has been in the service of the state in the past twelve (12) months
 - 18.3.3.3 Whether a spouse, child or parent of the provider or of a Director, manager, principal shareholder or stakeholder is or has been in the service of the state in the past twelve (12) months.

- 18.3.4 EMM shall reject any bid from a bidder:
 - 18.3.4.1 If any municipal rate and taxes or municipal service charges owed by that bidder or any of its Directors to EMM or to any other municipality or municipal entity are in arrears for more than three (3) months, or
 - 18.3.4.2 Who during the last five years has failed to perform satisfactorily on a previous contract with the municipality or with any other organ of state after written notice was given to that bidder that performance was unsatisfactory.
- 18.3.5 EMM shall reject the bid of any bidder if that bidder, or any of its directors:
 - 18.3.5.1 Has abused the SCM system of EMM
 - 18.3.5.2 Has committed any other improper conduct in relation to such system.
 - 18.3.5.3 Has been convicted of fraud or corruption during the past five years
 - 18.3.5.4 Has wilfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years.
 - 18.3.5.5 Has been listed in the Register of Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act (No 12 of 2004).
- 18.3.6 Such actions shall be communicated to the National Treasury and the Provincial Treasury.

18.4 SIGNING OF BIDS

- 18.4.1 In order to avoid confusion regarding precisely what shall be signed for a valid bid to ensue, the "Invitation to Bid" or a photocopy thereof, shall be signed in the original in ink by a representative of the bidding entity who is duly authorised to commit the entity to the content of the bid and to bind the bidding entity.
- 18.4.2 Acceptable written proof of such authorisation of the representative by the entity shall be included in the bid document submitted by the entity by the closing date and time.
- 18.4.3 All required declarations shall also be signed in the original to qualify as valid declarations.

18.5 COMPLETENESS OF DOCUMENTATION

- 18.5.1 Normally it should be ascertained whether bids:
 - 18.5.1.1 Include original tax clearance certificates
 - 18.5.1.2 Have been properly signed
 - 18.5.1.3 Are accompanied by the required securities
 - 18.5.1.4 Are substantially responsive to the bidding documents, and
 - 18.5.1.5 Are otherwise generally in order.
- 18.5.2 If a bid is not substantially responsive, that is, it contains material deviations from or reservations to the terms, conditions and specifications in the bidding documents, it should not be considered further.
- 18.5.3 The bidder should not be permitted to correct or withdraw material deviations or reservations once bids have been opened.

18.6 CLARIFICATION OR ALTERATIONS OF BIDS

- 18.6.1 Bidders shall not be requested or permitted to alter their bids after the deadline for receipt of bids.
- 18.6.2 The CM shall only allow questions be asked to bidders for clarification needed to evaluate their bids but should not ask or permit bidders to change the substance or price of their bids, after bid opening.
- 18.6.3 Requests for clarification from EMM and the bidder's responses shall be made in writing.

18.7 TAX CLEARANCE CERTIFICATES (TCC's)

- 18.7.1 EMM shall reject any bid from a supplier who fails to provide written proof from SARS that the supplier either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations.
- 18.7.2 As proof that there are no outstanding tax obligations, a valid Tax Clearance Certificate shall be submitted in the original.
- 18.7.3 If the EMM is in possession of a provider's original, valid Tax Clearance Certificate, it is not necessary to obtain a new Tax Clearance Certificate each time a price quotation or bid is submitted from that specific provider. This provision may be applied only if the closing date of the price quotation or bid falls within the expiry date of the Tax Clearance Certificate that is in the EMM's possession. Whenever this ruling is applied, cross-reference shall be made to the original, valid Tax Clearance Certificate for audit purposes.
- 18.7.4 Prior to the award of a bid, the EMM should verify the Tax Clearance Certificate submitted by a potential contractor at any SARS branch office nationwide. SARS will confirm such verification by electronic mail or per facsimile. Records of all verifications should be kept for audit purposes.
- 18.7.5 Tax clearance certificates shall be valid at the time of closing of bid. In terms of good governance, EMM shall verify validity of the TCC for the duration of doing business with a contractor.

18.8 SUBMISSION AND SIGNING OF DECLARATIONS OR CERTIFICATES

- 18.8.1 In all cases where the relevant preference claim form has to be submitted and a provider had the intention to claim as evidenced by the fact that he did fill in the preference form or gave other indications of wishing to claim preference, the bidder shall be allowed to complete and/or sign the declaration.
- 18.8.2 Recommendations with regard to such matters shall be submitted to the relevant evaluation authority and award structure.

18.9 DECLARATION OF INTEREST

- 18.9.1 A form for the declaration of a provider's position and interest vis-à-vis the evaluating structure, shall be included with the quotation/bid documents.

- 18.9.2 An official who is involved in the evaluation and recommendation process, or who is in any way involved with the procurement process, shall also certify, as part of the recommendation that he/she complies with The Prevention and Combating of Corrupt Activities Act.
- 18.9.3 All officials who can influence the award of a quotation/bid, are seen as officials who are involved in the recommendation process. The register of attendance or disclaimer for the members of the Bid Evaluation Committee and the Bid Adjudication Committee shall contain the following:
- 18.9.3.1 "I declare that I did not purposefully unlawfully favour or prejudice anyone in the decision making process in the recommendation and award of the quotation/bid."
- 18.9.4 All officials who are involved in the decision making process shall sign a similar declaration.

18.10 PROVIDERS' OWN CONDITIONS

- 18.10.1 The conditions as contained in the quotation/bid documents, have precedence. All providers shall accept these conditions. However, it sometimes happens that providers set their own conditions, which might be in conflict with the quotation/bid conditions. Such own conditions set by providers can be recommended for acceptance where it is in the interest of the EMM to do so and where the interests of other providers are not prejudiced.
- 18.10.2 Where the providers' own conditions are not in the best interest of the EMM, the provider shall be requested to withdraw the conditions.
- 18.10.3 If providers are not prepared to withdraw unacceptable or conflicting conditions, reasons why such conditions may be accepted should be submitted to the relevant award structure for approval or alternatively the quotation/bid may be passed over.
- 18.10.4 Declarations by providers regarding interests and past SCM practices shall be considered for materiality and a decision taken on whether to accept the provider's application or not.

18.11 CALCULATION OF SCORES

- 18.11.1 Calculation of scores for equity and price shall be done in line with the PPPFA.

18.12 EVALUATION UP TO R 30 000 (ALL APPLICABLE TAXES INCLUDED)

- 18.12.1 For quotations up to R 30 000 (all applicable taxes included), where the requirement is not technically complex and where there are no major risks involved, formalised Bid Evaluation Committees are not compulsory and the relevant delegated authority may perform the evaluation and submit the recommendation to the relevant award structure.
- 18.12.2 The evaluation shall still be based on an examination of the relevant statutory and/or predetermined evaluation criteria.

18.13 EVALUATION ABOVE R 30 000 AND UP TO R200 000 (ALL APPLICABLE TAXES INCLUDED)

- 18.13.1 For quotations above R 30 000 and up to R200 000 (all applicable taxes included), where the requirement is not technically complex and where there are no major risks involved, formalised Bid Evaluation Committees are not compulsory and the delegated authority shall evaluate quotations received and submit a recommendation regarding the award of the quotations to the relevant award structure.
- 18.13.2 The evaluation and award structures should be composed of different members to ensure that a transparent review of the evaluation is undertaken.
- 18.13.3 Quotations are to be evaluated against the predetermined criteria in the quotation document. The criteria to be taken into account are inter alia:
- 18.13.3.1 Compliance with specification/TOR and conditions of quote
- ☐ Functionality
 - ☐ Price
 - ☐ Preferential procurement
- 18.13.3.2 Capability / ability of the bidder to execute the contract.
- 18.13.3.3 Respondents that have achieved the minimum qualification score for functionality shall be evaluated further on price and preference points.
- 18.13.3.4 Respondents that did not achieve the minimum qualification score for functionality shall be eliminated from further evaluation.
- 18.13.4 EMM may not make any award from R 15 000 (all applicable taxes included) and above to a person whose tax matters have not been declared by SARS to be in order.

18.14 BID EVALUATION COMMITTEE FOR PROCUREMENT ABOVE R 200 000 (ALL APPLICABLE TAXES INCLUDED)

- 18.14.1 Above R 200 000 (all applicable taxes included), a Bid Evaluation Committee shall evaluate bids received and submit a recommendation regarding the award of the bids to the Bid Adjudication Committee.
- 18.14.2 Bids shall be evaluated against the predetermined criteria in the bid document. The criteria to be taken into account are inter alia:
- 18.14.2.1 Compliance with the specification/TOR and conditions of the bid
- 18.14.2.2 Functionality and/or local content.
- 18.14.2.3 Price
- 18.14.2.4 Preferential procurement
- 18.14.2.5 Capability/ability of the bidder to execute the contract:
- 18.14.2.6 National Industrial Participation Programme (NIPP) requirements, if specified in the bid document.
- 18.14.2.7
- 18.14.3 Bidders that have achieved the minimum qualification score for functionality shall be evaluated further on price and the preference point.
- 18.14.4 Bidders that did not achieve the minimum qualification score for functionality shall be eliminated from further evaluation.

18.15 CONFIRMATION OF PRICES

- 18.15.1 A legal contract cannot be concluded by the acceptance of an offer where it is obvious to any reasonable person that a price is out of line with other market prices and/or previous quoted prices. Confirmation of whether the price is correct or not, shall be obtained from the provider in such cases.
- 18.15.2 Only confirmation of the correctness of the price is involved and not negotiation for a better price.

18.16 ALLOCATION OF PREFERENCES

- 18.16.1 Bidders who qualify as Exempted Micro Enterprises (EME's) in terms of the Broad Based Black Economic Empowerment Act, shall either submit a certificate issued by a registered auditor, AO as contemplated in the Close Corporation Act, or an accredited verification agency.
- 18.16.2 Bidders other than EME's shall submit their original and valid B-BBEE status level verification certificate or a certified copy thereof, substantiating their B- BBEE rating.
- 18.16.3 The submission of such certificates shall comply with the requirements of instructions and guidelines issued by the National Treasury and shall be in accordance with notices published by the Department of Trade and Industry in the Government Gazette.
- 18.16.4 The B-BBEE status level attained by the bidder shall be used to determine the number of points out of the 20/10 points for preferential procurement. The points shall be awarded as follows:

Table 5

| B-BBEE Status Level of Contributor | Procurement up to R1 000 000 (all taxes incl.) Number of points | Procurement above R1 000 000 (all taxes incl.) Number of points |
|---|--|--|
| 1 | 20 | 10 |
| 2 | 18 | 9 |
| 3 | 16 | 8 |
| 4 | 12 | 5 |
| 5 | 8 | 4 |
| 6 | 6 | 3 |
| 7 | 4 | 2 |
| 8 | 2 | 1 |
| Non-compliant contributor | 0 | 0 |

- 18.16.5 The point obtained above shall be added to the point for price to determine the total score per bidder.
- 18.16.6 A trust, consortium or joint venture will qualify for points for their B-BBEE status level as a legal entity, provided that the entity submits their B-BBEE status level certificate.
- 18.16.7 A trust, consortium or joint venture will qualify for points for their B-BBEE status level as an unincorporated entity, provided that the entity submits their consolidated B-BBEE scorecard as if they were a group structure and that such a consolidated B-BBEE

scorecard is prepared for every bid.

- 18.16.8 A person shall not be awarded points for B-BBEE status level if it is indicated in the bid documents that such a bidder intends sub-contracting more than 25% of the value of the contract to any other enterprise that does not qualify for at least the points that such a bidder qualifies for, unless the intended sub-contractor is
an exempted micro enterprise that has the capability and ability to execute the contract.
- 18.16.9 EMM shall act against any bidder or person, when it was detected that the B- BBEE status level of contribution was claimed or obtained on a fraudulent basis.

18.17 DETERMINING POINTS FOR PRICE

- 18.17.1 The point for price shall be determined by the following formula:

$$P_s = 90 \left(1 - \frac{P_t - P_{min}}{P_{min}} \right)$$

Where

P_s = Points scored for comparative price of bid or offer under consideration
 P_t = Comparative price of bid or offer under consideration
 P_{min} = Comparative price of lowest acceptable tender or offer.

- 18.17.2 Points shall be rounded off to the nearest 2 decimal places.

18.18 COMBINING PRICE AND PREFERENCE POINTS

- 18.18.1 The points scored by a bidder in respect of the level of B-BBEE contribution shall be added to the points scored for price as calculated.
- 18.18.2 The contract shall be awarded to the bidder who scores the highest total number of points unless objective criteria justify the award to another bidder.

18.19 PRESENTATIONS HELD BY BIDDERS

- 18.19.1 All or only the short-listed bidders may be invited for presentations to the Bid Evaluation Committee after the evaluation of functionality, if the bid document provided for this option. The score obtained during the presentation may only influence the functional score.

18.20 AMENDMENT OF PRICES PRIOR TO LAPSE OF VALIDITY

- 18.20.1 An amendment of a quoted price during the original validity period is not allowed.

18.21 EXTENSION OF VALIDITY PERIOD

- 18.21.1 Extension of validity shall be finalised while the quotations/bids are still valid.
- 18.21.2 If a bidder should reduce his quoted price as a result hereof, the reduction may be considered only if the provider would have been the successful contractor irrespective of the reduction. In other words the case is evaluated at the original quoted price and if successful, it is accepted at the reduced price.
- 18.21.3 In cases where the quoted price is increased when the validity period expires and the quotation/bid concerned is either no longer recommended for acceptance or is recommended for acceptance at the higher price, the disadvantageous or incremental costs shall be reported to the Council annually.

18.22 NEW AND UNPROVEN PRODUCTS

- 18.22.1 A bid may not be rejected summarily simply because the bidder or the product which he offers is unknown.

18.23 COUNTRY OF ORIGIN

- 18.23.1 There is no embargo on the purchase of products from any foreign market.
- 18.23.2 However, the quality of products, which are imported, particularly of unknown or new products, is not always known and this must be rigorously tested for acceptability.

18.24 DEVIATIONS FROM SPECIFICATIONS

- 18.24.1 Quotations/bids with acceptable deviations from specification may be recommended for acceptance, provided that the competitiveness of another provider is not adversely affected.

18.25 ALTERNATIVE OFFERS

- 18.25.1 Regardless of whether the provider also submits offers conforming strictly to specification, alternative offers may be considered and accepted provided that the other providers are not prejudiced. If the alternative offer does not meet the specification requirements, in that it is lower than the specified requirements and the deviations are acceptable, the other providers shall be approached in cases where they might possibly be prejudiced, with a view to obtaining offers for the delivery of a product or service with the same or similar acceptable deviations. Such cases shall be submitted to the relevant Bid Evaluation Committee for consideration and the relevant award structure for approval.

18.26 IMPROVEMENT ON SPECIFICATIONS

- 18.26.1 A quotation/bid which obtains the highest score and which represents an improvement on the requirements of the specifications may be recommended for acceptance.
- 18.26.2 A quotation/bid which does not obtain the highest score and which represents an improvement on the requirements of the specifications may be recommended for acceptance by the relevant evaluation authority provided that all competitive providers

are approached beforehand but are not able to offer such an improved product at a lower price.

- 18.26.3 Any such actions should not lead to the unfair treatment of any other bidder in the process.

18.27 EQUAL OFFERS

- 18.27.1 When offers are equal in all respects on a comparative basis, thus scoring equal total points, the successful provider shall be the one scoring the highest number of preference points for B-BBEE.
- 18.27.2 However, when functionality is part of the evaluation process and two or more bids have scored equal points including equal preference points for B-BBEE, the successful bid shall be the one scoring the highest score for functionality.
- 18.27.3 Should two or more offers still be equal in all respects, the award shall be decided by the drawing of lots in accordance with the delegated powers.
- 18.27.4 Where bid prices for a portion of a series of sub-items are equal and it is necessary for these items to be obtained from the same bidder, then the lowest overall bid may be recommended for acceptance.

18.28 ADDITIONAL QUANTITIES

- 18.28.1 Before an award has been made, additional quantities may be accepted up to the maximum percentage provided for in the delegated powers.
- 18.28.2 All providers concerned shall be approached for offers for the larger quantities.
- 18.28.3 Where the additional quantities are more than the percentage provided for in the delegated powers, a fresh or a supplementary bid shall be invited.

18.29 SAMPLES

- 18.29.1 Notwithstanding the requirement that samples shall be submitted not later than the date and time specified in the bidding documents, samples may be received up to the time that they are required for evaluation. The recommendation of a bid shall, however, not be delayed because a sample, which was received late, still has to be evaluated.

18.30 COMPARISON OF QUOTED PRICES

- 18.30.1 The quoted prices of all items shall be brought to a comparative basis, where applicable, by deducting preferences and other benefits, and adding implied contract price adjustments in the case of non-firm prices and delivery and other costs where applicable.
- 18.30.2 Where purchases are accompanied by a maintenance contract and the future costs of the maintenance are known, the discounted present value of all the future costs shall be added to the purchase cost in order to calculate a comparative price. Where these costs are not known, a typical scenario shall be set in the quotation/bid document and priced by each provider in order to obtain comparative prices.

- 18.30.3 The quoted prices of providers who are not registered in terms of the VAT Act, shall for purposes of comparison be accepted as being inclusive of VAT. EMM shall do price comparisons on these quoted prices and any transaction as a result of acceptance of such quoted prices will under no circumstances be subject to the levying of an additional tax.

18.31 COMPARATIVE PRICES: BIDS FOR CONTRACTS WITH DURATION OF MORE THAN THREE FINANCIAL YEARS

- 18.31.1 Where bids for contracts with duration of more than three years are received, comparative prices, where necessary, shall be calculated on the basis of the discounted net present values of the various offers.
- 18.31.2 A specific escalation rate determined by the market factors should form part of the bid. This rate will then be used to calculate the tariffs for each of the future years.

18.32 CONFIDENTIALITY

- 18.32.1 After public opening of bids, information relating to the evaluation process may not be disclosed to interested parties or other persons not officially concerned with the process, until the successful bidder is notified of the award.

18.33 SUBCONTRACTING AND JOINT VENTURES

- 18.33.1 From a risk mitigation perspective, it is incumbent upon EMM to take reasonable care that:
- 18.33.1.1 Subcontractors and partners in joint ventures are engaged in fair and reasonable conditions of contract.
- 18.33.1.2 Secured payment options to sub-contractors may only be considered where it can be justified and where written consent is obtained from all parties to do so.

18.34 CANCELLATION AND RE-INVITATION OF BIDS

- 18.34.1 In the event that, in the application of the 80/20 or 90/10 preference point system as stipulated in the bid documents, all bids received exceed the estimated Rand value for the stipulated preference point, the bid invitation shall be cancelled by the BEC and the relevant award structure will be notified and provided with reasons for such cancellation.
- 18.34.2 If one or more of the acceptable bids received are within the prescribed threshold for the stipulated preference point, all bids shall be evaluated according to the preference point stipulated in the bid document.

18.35 BEC RECOMMENDATION REPORT

- 18.35.1 The EMM departmental project manager is responsible for the compilation of the recommendation report, which shall be vetted for correctness by the BEC appointed to conduct that specific evaluation and for compliance by the SCM

practitioner and the acquisition manager before submission to the relevant bid committee/s.

18.36 CONSIDERATION OF ADDITIONAL INFORMATION

- 18.36.1 Information received after the closing date, may only be taken into consideration if it would not influence the original recommendation made, which shall be based on the original information received from providers.
- 18.36.2 During the consideration of quotations/bids, communication by EMM with providers may take place only with the express prior approval of the relevant award structure.

18.37 CANCELLATION OF QUOTATIONS/BIDS

- 18.37.1 Should it be determined through the evaluation process that no acceptable quotations/bids were received; a recommendation to cancel the quotation/bid shall be submitted for approval as part of the evaluation report.
- 18.37.2 The reasons why no acceptable quotations/bids were received by the closing date and time shall be investigated before a decision is made what alternative process shall be followed to satisfy the requirements.
- 18.37.3 The requirement may now be re-advertised / re-invited or a specific number of pre-identified service providers may be targeted.
- 18.37.4 The evaluation report shall contain the request for cancellation accompanied by the perceived reasons determined through the investigation as well as a recommendation on the alternative process to be followed to satisfy the requirements.
- 18.37.5 The relevant award structure shall approve all cases where quotations/bids:
 - 18.37.5.1 Are to be cancelled.
 - 18.37.5.2 New quotations/bids are to be solicited because of the cancellation.
 - 18.37.5.3 Negotiations with the preferred bidder are to take place to determine a reduction in the scope and/or a reallocation of risk and responsibility. A substantial reduction in the scope or modification to the bidding documents may require re-bidding.
 - 18.37.5.4 Where bids are cancelled a notice of such cancellation shall be published on the eTender Publication Portal on the same day, or at the latest, the day after the bid has been cancelled.
 - 18.37.5.5 In addition to the notice on the eTender Publication Portal, all bidders shall be informed of the cancellation of quotations/bids in writing or the cancellation shall be advertised in the media as outlined in paragraph 16.3.1 of this policy.
- 18.37.6.1 EMM may cancel a bid, prior to the award if:
 - 18.37.6.2 Due to changed circumstances, there is no longer a need for the service, works or goods requested.

- 18.37.6.3 Funds are no longer available to cover the total envisaged expenditure; or
- 18.37.6.4 No qualifying quotations/bids were received.

18.38 NEGOTIATIONS

- 18.38.1 The CM may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation:
 - 18.38.1.1 Does not allow any preferred bidder a second or unfair opportunity.
 - 18.38.1.2 Is not to the detriment of any other bidder.
 - 18.38.1.3 Does not lead to a higher price than the bid as submitted.
- 18.38.2 Minutes of such negotiations shall be kept for record purposes.

18.39 CLEARANCE OF PROVIDERS PRIOR TO THE AWARD OF A CONTRACT

- 18.39.1 TAX CLEARANCE CERTIFICATE
- 18.39.2 Prior to the award of a bid, EMM should verify the Tax Clearance Certificate submitted by a potential contractor at any SARS branch office nationwide. SARS will confirm such verification by electronic mail or per facsimile.
- 18.39.3 Records of all verifications should be kept for audit purposes.

18.40 RESTRICTED PERSONS

- 18.40.1 EMM shall check the National Treasury database prior to awarding any contract to ensure that no recommended bidder, nor any of its directors, is listed as companies, directors or persons prohibited from doing business with the public sector.

18.41 BID DEFAULTERS

- 18.41.1 This list of restricted persons and checking of prohibition status is managed and maintained by the SCM Office within the National Treasury.

18.42 NATIONAL INDUSTRIAL PARTICIPATION PROGRAMME

- 18.42.1 EMM shall obtain clearance for a recommended bidder from the Department of Trade and Industry in respect to contracts which are subject to the National Industrial Participation Programme of that Department.

18.43 DEALING WITH UNSOLICITED BIDS

- 18.43.1 EMM is in terms of Section 113 of the MFMA not obliged to consider unsolicited bids received outside a normal bidding process. However if EMM decides to consider unsolicited bids, it may do so, only if:
 - 18.43.1.1 The product or service offered in terms of the bids is proven a unique innovative concept that will be exceptionally beneficial to or have exceptional cost advantages for EMM.

- 18.43.1.2 The person who made the bid is the sole provider of the product or service.
- 18.43.1.3 The reasons for not going through the normal biddings processes are found to be sound by the CM.
- 18.43.1.4 The need for the product or service by EMM has been established during its multi-year business planning and budgeting process.
- 18.43.1.5 The CM decides to consider an unsolicited bid, the decision shall be made public in accordance with section 21A of the Municipal Systems Act.

SECTION 19 AWARDS

19.1 AWARD STRUCTURES

- 19.1.1 The Bid Evaluation Committee and the Bid Adjudication Committee/s or equivalent structures for a specific requirement shall be composed of different members to ensure that a transparent review of the evaluation is undertaken.

19.2 AWARD STRUCTURES UP TO R 200 000 (ALL APPLICABLE TAXES INCLUDED)

- 19.2.1 The official/s delegated the adjudication and award functions, shall finalise the award/s.
- 19.2.2 All quotations up to R 200 000 (all applicable taxes included) not specifically delegated, shall be finally adjudicated and awarded by the Bid Adjudication Committee/s or the CM or as delegated.

19.3 POWERS OF THE AWARD STRUCTURES UP TO R 200 000 (ALL APPLICABLE TAXES INCLUDED)

- 19.3.1 The official/s acting as the Award Structure/s assesses if the specific procurement processes followed, are in line with the approved policy and procedures, that the evaluation is fair and sound, the procurement is acceptable and in EMM's best interest, and then approves/rejects the recommendation.
- 19.3.2 The function shall be carried out in line with the award functions stipulated under the roles and responsibilities section.
- 19.3.3 Any decision regarding the adjudication and award of a contract is final.

19.4 AWARD STRUCTURES ABOVE R 200 000 (ALL APPLICABLE TAXES INCLUDED)

- 19.4.1 The Bid Adjudication Committees shall be the Award Structures who will finally award bids above the monetary value of R 200 000 (all applicable taxes included) and up to their delegated authority.
- 19.4.2 Above the delegated authority of each Bid Adjudication Committee, the Bid Committees endorse the recommendations and the CM finally awards the bids as the highest level award structure.

- 19.4.3 Above R 200 000 (all applicable taxes included), the Bid Adjudication Committees shall carry out the adjudication and award of bids unless the recommendation is referred back for justifiable reasons or unless there are circumstances in which the report with recommendations and comments should be forwarded to the CM for final adjudication and award.

19.5 POWERS OF THE AWARD STRUCTURES ABOVE R 200 000 (ALL APPLICABLE TAXES INCLUDED)

- 19.5.1 The Chairperson of the Bid Evaluation Committee shall present the Bid Evaluation Committee's recommendation report to the relevant Bid Adjudication Committee for consideration.
- 19.5.2 The function shall be carried out in line with the award functions stipulated under the roles and responsibilities section.
- 19.5.3 The relevant Bid Adjudication Committee assesses if the specific procurement process followed, is in line with the approved policy and procedures, that the evaluation is fair and sound, the procurement is acceptable and in EMM's best interest, and then approves/rejects the recommendation or make a final recommendation to the CM for final award, if the Bid Adjudication Committee is not delegated to make a final- award. The Bid Adjudication Committee may make another recommendation to the CM on how to proceed with the relevant procurement.
- 19.5.4 Where the Bid Adjudication Committee finds that the recommendation is not correct or not in the EMM's best interest, the reasons for not supporting the review are submitted to the CM for finalisation of the adjudication and award.
- 19.5.5 Members of the Bid Evaluation Committee may present their reports to the relevant Bid Adjudication Committee and clarify any uncertainties.
- 19.5.6 The Bid Adjudication Committees and the CM has the power to amend or cancel concluded agreements, depending on their thresholds, if delivered goods and services do not conform to specifications.
- 19.5.7 Any decision regarding the adjudication of a contract is final.

19.6 AWARDS BASED ON POINTS

- 19.6.1 The award of a quote/bid shall be awarded to the respondent/ bidder who scored the highest total number of points for price and B-BBEE contribution level combined.
- 19.6.2 Should a quote/bid not be awarded to the highest scorer, EMM should, within 7 working days, in writing, notify the Auditor-General and the National Treasury, of the reasons for the deviation.

19.7 REASONS FOR REJECTION

- 19.7.1 EMM shall reject a proposal for the award of a contract if the recommended bidder has committed a proven corrupt or fraudulent act in competing for the particular contract.
- 19.7.2 The CM shall ensure that irrespective of the procurement process followed, no award may be given to a person:
 - 19.7.2.1 Who is in the service of the state?
 - 19.7.2.2 If that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state.
 - 19.7.2.3 A person who is an advisor or consultant contracted with EMM.
 - 19.7.2.4 Awards of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state shall be disclosed in the note of the annual financial statement indicating:
 - ☐ The name of the person
 - ☐ The capacity in which that person is in the service of the state
 - ☐ The amount of the award.

19.8 CONTRACTS WITH FUTURE BUDGETARY IMPLICATIONS

- 19.8.1 In terms of Section 33 of the MFMA, EMM may enter into contracts which will impose financial obligations beyond a financial year but if the obligation extends beyond the three years covered in the annual budget, it may only do so if:
- 19.8.2 The City Manager, at least 60 days before council, made public the draft contract, and invite the local community or representation to submit comments;
 - 19.8.2.1 The Council has taken into account the projected financial obligation, the impact on future tariffs and revenue, comments from the community, and views and recommendations of National Treasury, the relevant local government or national department.
 - 19.8.2.2 Council has to take into account:
 - 19.8.2.2.1 The projected financial obligation for the contract for each financial yearThe impact of the financial obligation on future tariffs and revenue
 - 19.8.2.2.2 Comments from the local community or interested parties
 - 19.8.2.2.3 Views and recommendations by National Treasury, relevant national departments or local government.
 - 19.8.2.3 The municipal council has adopted a resolution after determining that significant investment or financial benefit will be derived and approves such contract.

19.9 NIP PROGRAMME

- 19.9.1 As per the requirements of the DTI's National Industrial Participation Programme (NIPP), the EMM shall, within 5 working days after the award of a contract that is in excess of R10 million (all applicable taxes included), submit details of such an award to the relevant section of the DTI.

SECTION 20 CONTRACTUAL COMMITMENTS

20.1 CONCLUSION OF CONTRACTS

- 20.1.1 The SCM directorate shall finalise the adjudication by issuing the letter of acceptance, the contract form, including the service level agreement and formal contract, where applicable.
- 20.1.2 The acceptance of a successful bid shall be in writing and shall be sent by registered/certified mail or as indicated in a special condition; the principle being that there shall be a mechanism of proof of delivery.
- 20.1.3 Up to a predetermined monetary value for quotations, the official with the necessary delegated authority shall sign orders or other necessary documentation to commit EMM.
- 20.1.4 Up to a predetermined monetary value for quotations, the official with the authority to award may be the official who contractually commits EMM.
- 20.1.5 Above the predetermined monetary value, an official with the necessary delegated authority to contractually commit EMM, shall sign the letters of acceptance and contract form or other necessary documentation to commit EMM.
- 20.1.6 The official with the necessary delegated authority to commit EMM, shall be satisfied that all the necessary contractual conditions have been included prior to signing.
- 20.1.7 City of Ekurhuleni's contract documents shall promote uniformity across the entity.
- 20.1.8 Both/all parties to the contract shall sign the contract form or formal contract.
- 20.1.9 Legal copies shall be kept in a safe place for judicial reference.

20.2 FORMAL CONTRACTS

- 20.2.1 The formal contract shall form part of the quotation/bid documents, if required to be signed.
- 20.2.2 Formal contracts are concluded only where this is stated as a requirement in the quotation/bid document.
- 20.2.3 If a formal contract is concluded, an order shall still be placed with the successful provider.

20.3 SERVICE LEVEL AGREEMENTS

- 2031 A service level agreement (SLA) may be compiled and signed if required. A service level agreement (SLA) is a document, which defines the relationship between two parties, namely the contractor and the client and spells out services and activities to be executed, due dates and turnaround times.
- 2032 A SLA may not contradict any terms or conditions of the contract.
- 2033 When a SLA is included in a contract, both documents shall be submitted to Legal for review and finalisation.
- 2034 As with a contract, the SLA shall be signed by all the contracting parties and should be used to enforce performance and delivery against agreed terms and conditions.
- 2035 All contracting parties shall be in possession of the SLA.

20.4 CONTRACTS PROVIDING FOR COMPENSATION BASED ON TURNOVER

- 2041 If a service provider acts on behalf of EMM to provide any service or act as a collector of fees, service charges or taxes and the compensation payable to the service provider or the amount collected, the contract between the services and EMM shall stipulate:
- 2042 A cap on the compensation payable to the service provider.
- 2043 That such compensation shall be performance based.

20.5 TIME OF CONCLUSION

- 2051 The contract is concluded at the time that the letter of acceptance is posted even if the contract form and formal contract is only signed at a later date, unless stated otherwise in the quotation/bid documents. The acceptance of a bid shall be in writing and shall be sent by registered/certified mail or as indicated in a special condition, the principle being that there shall be a mechanism of proof of delivery. Therefore, once the letter of acceptance has been sent, a contractual commitment has been made and it becomes effective. The relevant datestamp of the Post Office serves as proof of the time.
- 2052 If the letter of acceptance is handed over, ensure a mechanism of proof of delivery and keep the proof on file to ensure it is documented that a contractual commitment was established before the validity expired.
- 2053 The signing of the contract form or formal contract, where applicable, serves to enhance the contract established.

SECTION 21 ACCESS TO BIDDING INFORMATION

21.1 INFORMATION ACCESS

- 21.1.1 All bidding information remains strictly confidential.
- 21.1.2 Every bidder shall be informed of final bid results.
- 21.1.3 The information of one bidder shall not be disclosed to any other bidder, except as provided for in the bid opening section of this policy.

21.2 INFORMING THE SUCCESSFUL BIDDER/S

- 21.2.1 Subject to paragraph 21.5.1 below, the successful bidder shall be notified in writing by registered or certified mail of the acceptance of their bid within the original validity period of the bid.
- 21.2.2 The information of other bidders will not be disclosed to the successful bidder.

21.3 INFORMING THE UNSUCCESSFUL BIDDER/S

- 21.3.1 On written request, any bidder should be provided with the reasons why his / her own bid was unsuccessful.
- 21.3.2 Each bidder, on request, is entitled to feedback concerning its own bid.
- 21.3.3 When an unsuccessful bidder requests reasons why the bid was unsuccessful, the bidder shall be requested to forward the request in writing to EMM.
- 21.3.4 Once the written request is received, the reasons why the bid was unsuccessful shall be provided in writing. It is therefore imperative that proper reasons be recorded in the evaluation and recommendation report so that it may be used to provide the bidder with justifiable reasons.
- 21.3.5 Should the bidder not be satisfied with the explanation given after consultation with EMM, the bidder may refer the matter to the National Treasury, the Public Protector or a court of law.

21.4 DISCLOSURE OF INFORMATION

- 21.4.1 Bids are not available for perusal by the public.
- 21.4.2 According to sections 36 of the Promotion of Access to Information Act, Act No 2 of 2000, a public body shall refuse a request for access to a record of the body if the record contains:
 - 21.4.2.1 Trade secrets of a third party.
 - 21.4.2.2 Financial, commercial, scientific or technical information, other than trade secrets, of a third party, the disclosure of which would be likely to cause harm to the commercial or financial interest of the third party.
- 21.4.3 Information supplied in confidence by a third party, the disclosure of which could reasonably be expected:
 - 21.4.3.1 To put that third party at a disadvantage in contractual or other negotiations.
 - 21.4.3.2 To prejudice that third party in commercial competition.

- 21.4.3.3 Personal information about a third party, including a deceased individual.
- 21.4.3.4 When divulging information, a balance shall be struck between one party's right to access of information and the right to confidentiality of the other party.
- 21.4.3.5 Where no bid has been accepted, particulars of the bids received are not made public.
- 21.4.3.6 The EMM can withhold information if the release or publication of the information:
 - 21.4.3.6.1 Will impede law enforcement; or
 - 21.4.3.6.2 Will be contrary to the public interest; or
 - 21.4.3.6.3 Will harm the legitimate interests of the EMM; or
 - 21.4.3.6.4 Will hinder fair competition between providers by revealing any proprietary information of any bidder. When divulging information, a balance shall be struck between one party's right to access of information and the right to confidentiality of the other party.

21.5 PUBLICATION OF AWARDS

- 21.5.1 Awards shall be published in the eTender Publication Portal within seven (7) working days of being made.
- 21.5.2 The publication shall comprise the following information:
 - 21.5.3 Names of the successful bidder(s) and preference points claimed;
 - 21.5.4 Contract price(s);
 - 21.5.5 Contract period;
 - 21.5.6 Contact details;
 - 21.5.7 Names of directors; and
 - 21.5.8 Date of completion/award.
- 21.5.9 In addition to the eTender Publication Portal, the above information shall also be published in the media outlined in paragraph 16.3.1 of this policy.
- 21.5.10 Within the same time frame set out in paragraph 21.5.1 above, the names and contact details of unsuccessful bidders shall be published on the eTender Publication Portal.

21.6 BIDS RELATING TO THE CONSTRUCTION INDUSTRY

- 21.6.1 Bids shall be registered on the CIDB Register of Projects on award and progressively be updated until project completion for the promotion, assessment and evaluation of best practices on construction projects.

SECTION 22 CONTRACT/PROJECT MANAGEMENT

22.1 GENERAL RESPONSIBILITIES

- 22.1.1 A contract or agreement procured through the SCM system of EMM shall:
 - 22.1.1.1 Be in writing.
 - 22.1.1.2 Stipulate the terms and conditions of the contract or agreement which shall include provisions providing for:
 - 22.1.1.3 Be terminated in the case of non- or under performance.
 - 22.1.1.4 Contain dispute resolution mechanisms to settle disputes between the parties.
- 22.1.2 A periodic review of the contract or agreement shall be done once every three years in the case of a contract or agreement for longer than three years.

- 22.1.3 The relevant user group takes responsibility for day-to-day management and monitoring of a contract in line with the contractual conditions.
- 22.1.4 The SCM directorate takes responsibility for maintaining original contract documentation and monitoring contracts in terms of renewals, transfers, terminations, amendments and price adjustments.

22.2 MANAGING CONTRACTS

- 22.2.1 The CM shall take all reasonable steps to ensure that a contract or agreement procured through the SCM Manual of EMM is properly enforced. It shall be insured that contracts are properly and duly managed and executed.
- 22.2.2 The nature of the responsibility will determine who manages the specific contractual aspect.

22.3 CORRECTION OF AN INCORRECT ACCEPTANCE

- 22.3.1 Mistakes in the letter of acceptance, contract form and/or formal contract shall be reported immediately to the official in charge of the SCM directorate.
- 22.3.2 Every effort shall be made without delay to recover the original letter of acceptance, contract form and/or formal contract from the contractor.
- 22.3.3 Where it is not possible to recover the original, all particulars of the incorrect acceptance shall be reported to the relevant award structure together with a recommendation regarding the corrective steps that are envisaged.

22.4 PLACING ORDERS

- 22.4.1 Placing orders is the sole responsibility of EMM.
- 22.4.2 Orders are to be placed in accordance with the contract and in accordance with the instructions of the financial policy.

22.5 PLACING ORDERS NEAR THE END OF A CONTRACT PERIOD

- 22.5.1 Placing orders near the end of the financial year in order to only spend unused funds in the budgets are not allowed.
- 22.5.2 Where, for a given period of time, no valid contract exists goods, services or works shall be obtained in accordance with the delegated powers.
- 22.5.3 The obtaining of requirements shall be restricted to what is absolutely necessary.

22.6 CONTRACT MONITORING

22.6.1 MONITORING

- 22.6.1.1 The CM or delegate shall monitor on a monthly basis the performance of the contractor under the contract or agreement.
- 22.6.1.2 The CM shall regularly report to the Council on the management of the contract or agreement and the performance of the contractor.
- 22.6.1.3 Constant monitoring is essential to ensure that contractual obligations are met and that contracts run with as little disruption as possible.
- 22.6.1.4 The SCM directorate is responsible for notifying the user department and especially the relevant project manager of any term contract expiry that will allow the user sufficient time to decide whether to renew the contract.
- 22.6.1.5 The user shall ensure that the contractor performs according to the stipulations of the contract in delivering the goods or services on time, in the correct quantity and to the required standard.

22.7 TRADEMARK / BRAND NAME

- 22.7.1 If a bid is accepted for a particular trademark/brand name, that trademark/brand name shall appear on the product and substitute products shall not be accepted.

22.7.2 TESTING AND INSPECTION OF SUPPLIES

- 22.7.2.1 In cases where an SABS or CKS specification for a product exists, or where a specification is drawn up by the SABS at the request of EMM, the contract form and the contract circular shall indicate whether the supplies are subject to consignment inspections, sample testing or the approval of pre-production samples, as the case may be. The SABS or the appointed testing organisation shall be advised accordingly.
- 22.7.2.2 Inspections are carried out on whichever items the Bid Specification Committee considered it to be necessary as indicated in the contract established.
- 22.7.2.3 The inspection of supplies can be carried out either before consignment at the contractor's premises or after receipt.
- 22.7.2.4 Where a contract is awarded on the grounds of evaluation of a representative sample, such sample is kept for the contract period and is regarded as the contract sample. Deliveries are then compared with it in order to ensure that the quality does not deteriorate
- 22.7.2.5 Samples kept by EMM for control purposes may be accepted as partial execution of the contract, in which case the contractor shall be requested to deliver only the balance. If a sample is not accepted as partial delivery, the contractor shall be requested to collect it after termination of the contract.

22.8 COSTS OF TESTING

- 22.8.1 All pre-bid testing will be for the account of the bidder.
- 22.8.2 The costs of testing in connection with specific term contracts and ad hoc contracts are the responsibility of EMM.
- 22.8.3 Where a test indicates that a consignment or sample complies with the requirements, EMM carries the cost of the tests.

22.9 RETENTION FEES

- 22.9.1 With regards to construction and related contracts, EMM shall impose a system of retention fees as per guidelines approved by Council from time to time
- 22.9.2 Retention fees are fees retained for a certain period by the EMM to offset costs which may arise from the contractor's liability for defects or failure to comply fully with the contract.
- 22.9.3 This matter is further discussed under the section on Risk Management in this policy.

22.10 LONG TERM CONTRACT REVIEW

- 22.10.1 EMM shall perform a periodic review of the contract of agreement once every three years in the case of a contract or agreement for longer than 3 years.

22.11 BIDS RELATING TO THE CONSTRUCTION INDUSTRY

- 22.11.1 Contracts registered on the CIDB Register of Projects shall be updated progressively until project completion for the promotion, assessment and evaluation of best practices on construction projects.

22.12 NON-CONTRACTUAL PURCHASES

- 22.12.1 Small quantities of supplies or minor services may be procured outside of the contract in the following circumstances:
 - 22.12.1.1 In cases of emergency; or
 - 22.12.1.2 When the contractor's point of supply is not situated at or near the place where the supply or service is required; or
 - 22.12.1.3 If the contractor's supplies or services are not readily available.
- 22.12.2 Purchases outside the contract shall be restricted to requirements that are absolutely necessary to satisfy the immediate requirement and the action shall always be justifiable against the contract conditions.
- 22.12.3 Acquisition procedures shall in all instances be followed when procuring outside of existing contracts.

22.13 PAYMENTS

- 22.13.1 Under normal circumstances payment is made for supplies in accordance with the contract conditions only after they have been delivered and, where applicable, installed, in good working order.
- 22.13.2 Payments shall be executed within 30 days of receipt of.

22.14 OVER/UNDER-DELIVERIES

- 22.14.1 Over- or under-deliveries may be accepted in accordance with the CM's delegated powers.

22.15 DISCOUNTS ON INVOICES

- 22.15.1 In cases where a discount is not a contract condition and a contractor indicates a discount on his invoice, this discount shall be utilised if possible, for instance by making payment within the time limit specified on the invoice. However, orders shall at all times be placed in accordance with the contract conditions, i.e. non-contractual discounts shall not be taken into consideration when placing orders.

22.16 INSOLVENCY, LIQUIDATION, DEATH, SEQUESTRATION OR JUDICIAL MANAGEMENT OF CONTRACTORS

- 22.16.1 In terms of the general conditions of contract, EMM has certain options, which it may exercise in the case of insolvency.
- 22.16.2 The risk to EMM is the determining factor and the choice with the smallest degree of risk is preferred.
- 22.16.3 Insolvency or bankruptcy is the failure/inability to meet financial obligations.
- 22.16.4 Sequestration is firstly to place an insolvent debtor's estate in the hands where the Master decides on the estate and thereafter it rests with the trustee that distributes the assets (money) among the creditors or, secondly where the court determines insolvency.
- 22.16.5 Liquidate is to determine and settle/wind up the liabilities of a firm or an estate and to mete out the assets to creditors or inheritress.

22.17 TRANSFER AND CESSION OF CONTRACTS

- 22.17.1 The contractual conditions should stipulate the conditions under which transfers/cessions shall be considered and the process to be followed in such circumstance.
- 22.17.2 Applications for the transfer/cession of contracts shall be completed and signed by both the transferor and the transferee and countersigned by two witnesses. Full reasons for the transferring of the contract shall be provided and the transferee's ability to carry out the contract shall be established and reported to the Accounting Authority or the delegate.

22.18 TRANSFER OF CONTRACT PAYMENTS

- 22.18.1 Transfer of payments may be considered in cases where a contractor makes application on an official letter signed by the CEO, or any other authorised person, for monies due to the contractor, to be paid to another person or organisation, such as a bank or supplier of materials.
- 22.18.2 Contract payments may be transferred on the recommendation of EMM and with the relevant award structure's approval only.
- 22.18.3 Written confirmation shall be obtained from the contractor as requests for transfer of payment received from another person or organisation cannot be considered favourably.
- 22.18.4 Every application shall be dealt with on its own merits. Favourable consideration will result only where it is not to the detriment of the EMM.
- 22.18.5 Although the transfer of payments is regarded as undesirable, every application shall be dealt with on its own merits. Favourable consideration will result only where it is not to the detriment of EMM.
- 22.18.6 In the case of certain commodities and services, such as rented equipment, transfer of payment is often required because the contract has been discounted to a bank, sometimes without the knowledge or approval of the client concerned. Such action is unauthorised and is tantamount to a breach of contract. EMM is not compelled to honour such a transfer of payment.

22.19 CONTRACT EXTENSIONS/VARIATIONS

22.19.1 GENERAL

- 22.19.1.1 The General Conditions of Contract (as amended from time to time) is applicable to all contracts and shall be adhered to.

22.20 EXTENSION OF CONTRACTS

- 22.20.1 As a general rule, the municipality may not extend a contract:

- 22.20.1.1 More than once.

- ☐ However, a contract may also be extended for a second time. In such circumstances, clear and justifiable reasons must be provided to the relevant approval authority, proving that such additional extension is beneficial to the municipality. Any such extension may not be approved, if the purpose is to circumvent the competitive bidding mechanisms of the procurement policy.

- 22.20.1.2 For a period exceeding the duration of the original agreement

- 22.20.1.3 The value of the extension may not exceed the original approved value of the contract.
- 22.20.1.4 The provisions of section 33 of the MFMA shall be considered for contracts that impose financial obligations on the municipality beyond the three years covered in the annual budget for that financial year
- 22.20.1.5 Where applicable the provisions of regulation 36 shall be applied subject to paragraph 22.20.3.6 below.

22.20.2 VARIATION OF CONTRACTS

- 22.20.2.1 The municipality may not vary a contract:-
 - 22.20.2.1.1 For a period exceeding the duration of the original agreement; and 22.20.2.1.2 For an amount exceeding twenty [20] percent of the original contract value for construction related goods, services and/or infrastructure projects and 15% for all other goods and/or services of the original value of the contract.
 - 22.20.2.1.3 Contracts may be amended/varied/modified according to EMM's delegated powers to achieve the original objective of the contract.
 - 22.20.2.1.4 Amendments may not materially alter the original objective; as such amendments should form part of a new bid invitation.
 - 22.20.2.1.5 All contractual parties shall agree to the amendment in writing.
 - 22.20.2.1.6 No contract can be amended after the original contract has ceased to exist.

22.20.3 EXTENSION OF CONTRACT PERIODS

- 22.20.3.1 Approval for the extension of contracts shall be obtained from the delegated structure that approved the original award of bid.
- 22.20.3.2 The extension of a contract shall be requested and finalised before the expiry date of the current contract.
- 22.20.3.3 Where prices are amended for the extended period, the reasonableness of the prices shall be established and approved by the delegated structure referred to above.
- 22.20.3.4 Where justifiable reasons are provided for extending a contract, the relevant application may be considered favourably and contractors may be approached with the request to indicate whether they are prepared to extend the contract period.
- 22.20.3.5 Contracts may not normally be extended beyond the period as determined by the CM's delegated powers.
- 22.20.3.6 Notice of all awards through variations and extensions of existing contracts shall be published on the eTender Publication Portal within seven (7) working days after the award has been made.

22.20.4 EXTENSION OF DELIVERY PERIODS

22.20.4.1 Delivery periods may be extended according to the CM's delegated powers.

22.20.4.2 Motivated applications for the extension of delivery periods in respect of ad hoc and specific term contracts may be considered favourably, but are subject to the restriction that no price adjustments, which arise during the extended period, will be considered. However, price adjustments during the extended period may be considered favourably if EMM requested the extended delivery period, or when delayed deliveries are caused by the actions of EMM.

22.20.5 AMENDMENT OF SPECIFICATIONS

22.20.5.1 Where a binding contract has been concluded, an amendment of the specification whether initiated by the contractor or by EMM, can be made only after negotiation between the contractor and EMM and through the approval of the relevant award structure.

22.20.5.2 Each case for the amendment of specifications shall be dealt with on its own merits, especially as amendments may be required due to legislative changes in the specific environment.

22.20.6 CONTRACTUAL PRICE ADJUSTMENTS

22.20.6.1 The contractual conditions shall stipulate the circumstances under which price adjustments shall be considered, the intervals for adjustment, the base date for adjustments as well as the price adjustment formula and the process to be followed in such circumstances.

22.20.6.2 In cases of term contracts, price adjustments may be considered on a quarterly basis but this condition shall be as indicated in the bid documents.

22.20.6.3 Price adjustments should not be considered for a contract period less than twelve (12) months.

22.20.6.4 The below prescribed formula shall be used for adjustment of prices due to the fluctuation of the indices.

22.20.6.5 Indices compiled by Statistics South Africa may be used for price adjustments.

22.20.6.6 Rate of Exchange (ROE) fluctuations shall only be allowed on the imported content of the commodity.

22.20.6.7 The following formula is applicable if adjustments of prices are allowed:

Equation 1

$$Pa = (1 - V)Pt \left(D1 \frac{R1t}{R1o} + D2 \frac{R2t}{R2o} + Dn \frac{Rnt}{Rno} \right) + VPt$$

Where:

- ☐ Pa = The new escalated price to be calculated.
- ☐ (1-V)Pt = 85% of the original bid price. Note that Pt shall always be the original bid price and not an escalated price.
- ☐ D1, D2 = Each factor of the bid price eg. labour, transport, clothing, footwear, etc. The total of the various factors D1, D2...etc. shall add up to 100%.
- ☐ R1t, R2t = Index figure obtained from new index (depends on the number of factors used).
- ☐ R1o, R2o = Index figure at time of bidding.
- ☐ VPt = 15% of the original bid price. This portion of the bid price remains firm i.e. it is not subject to any price escalations.

22.20.6.7.1 Price adjustments due to fluctuation in the rate of exchange.

22.20.6.7.2 The price adjustments based on ROE fluctuations, may be allowed only on the imported content of the commodity to meet only the suppliers' additional costs of the imported content.

22.20.6.7.3 Where the whole or a portion of the bidding price may be affected by the revaluation of currencies or any fluctuation in the ROE, the bidder shall, in accordance with the bidding requirements, state in his bid response, the amount to be paid in foreign currencies or to be remitted abroad, as well as the rate of exchange applied in the conversion of that amount into South African currency in calculating the bid price.

22.20.6.7.4 All rate of exchange claims shall be accompanied by proof from the bank of the relevant exchange rate.

22.20.7 NON-CONTRACTUAL ADJUSTMENT OF PRICES

22.20.7.1 Non-contractual adjustment of prices is normally not allowed. For example, when contractors suffer a loss as a result of their own negligence, price adjustments not covered by the contract are not favourably considered. However, where a contractor suffers loss as a result of circumstances beyond his control, or as a result of incorrect action by EMM and particularly when such loss might cause his downfall, non-contractual price adjustments may be considered by EMM. Such adjustments are to the disadvantage of EMM and the necessary CM or the delegate approval shall therefore be obtained.

22.21 REDUCTION OF PRICES

22.21.1 EMM shall accept price reductions after award of a contract where this is advantageous to EMM, unless the acceptance of the price reduction amounts to breach of contract.

22.22 UNSATISFACTORY PERFORMANCE

22.22.1 UNSATISFACTORY PERFORMANCE: EMM'S ROLE

22.22.1.1 General

22.1.1.1.1 Unsatisfactory performance shall be communicated to contractors in writing compelling the contractor to perform according to the contract and thus to rectify or to restrain from unacceptable actions.

22.1.1.1.2 Unsatisfactory performance occurs when performance is not in accordance with the contractual conditions. Directives regarding action in such cases should appear in the general conditions of contract.

22.1.1.1.3 Before action is taken in terms of the general conditions of contract or any other special contract condition applicable, EMM shall warn the contractor by registered mail that action will be taken in accordance with the contract conditions unless the contractor complies with the contract conditions and delivers satisfactory supplies or services within a specified reasonable time. If the contractor still does not perform satisfactorily despite a final warning, the SCM directorate may make a recommendation to the CM or the delegate for the appropriate penalties to be introduced or make a recommendation to the CM for the cancellation of the contract concerned.

22.1.1.1.4 When EMM has to satisfy its need through another provider (for the contractor's expense), the loss to EMM shall always be restricted to the minimum since it is difficult to justify the recovery of unreasonable additional costs from the contractor.

22.22.2 GUARANTEES, WARRANTS SECURITIES AND SURETIES

22.22.2.1 If, during the warranty period, goods do not comply with the requirements because of faulty material used during manufacture, or faulty finishing, or any deficiency, latent or otherwise, the contractor shall be requested without delay, by registered mail, to replace or repair the goods depending on the circumstances. Supplies

replaced or repaired or services rendered shall be warranted for the same period as the original supplies or services. See the general conditions of contract in connection with warranties.

22.22.2.2 Guarantees of an insurance company or bank and retention monies required in engineering and construction contracts shall be in accordance with the provisions of the CIDB Standard for Uniformity in Construction Procurement – refer to Best Practice Guideline A2: *Applying the procurement prescripts of the CIDB in the Public Sector* dated December 2007: Edition 5 for the Minimum levels of securities generally provided for in engineering and construction contracts.

22.22.3 CLAIMS AGAINST CARTAGE CONTRACTORS

22.22.3.1 Where contracts are concluded on the basis of "F.O.R. despatch station", consignments, when delivered at the final destination or taken into receipt at the receiving station, shall be carefully inspected. If there are no external signs of damage and the quantities are correct, the receipt may be signed.

22.22.3.2 Where contracts are concluded on the basis of "F.O.R. "delivered into stores", the contractor is responsible for shortages, damage or loss, and claims shall therefore be initiated without delay if consignments show signs of damage or the number of containers is not correct on receipt.

22.22.4 LATE DELIVERIES

22.22.4.1 The general condition of contract should state that delivery of supplies shall be made in accordance with the conditions specified in the contract.

22.22.5 PENALTIES FOR LATE DELIVERY

22.22.5.1 Penalties are not intended as a source of income for City of Ekurhuleni, but serve as an incentive to the contractor to perform within the contractual conditions.

22.22.5.2 Where an unreasonable delay occurs, City of Ekurhuleni shall address a written warning to the contractor by registered mail, setting a cut-off date (usually three weeks from date of warning) and warn him that the penalty clause will be applied if the order is not executed before the cut-off date. If he does not heed the warning, the penalty clause shall be applied and the action reported to the Accounting Officer.

22.22.5.3 In the following cases penalties for late delivery **shall** be imposed:

- ☐ Where deliveries within a particular time period (service) were a specific contract condition and where delays caused serious damage, loss or inconvenience to City of Ekurhuleni.
- ☐ Where a firm delivery period (supply) was a contract condition and where delays caused serious damage, loss or inconvenience to City of Ekurhuleni.

22.22.6 LEGAL REMEDIES IN THE CASE OF INCORRECT PREFERENCES

22.22.6.1 If a contractor should win a contract on the basis of wrong information which was supplied regarding the preferences which he has claimed, and it is shown later that the information is incorrect, then the Accounting Officer has the power to:

- ☐ Recover any costs or damage which City of Ekurhuleni might have suffered as a result of the conclusion of the contract; and/or
- ☐ Terminate the contract and to recover any loss which City of Ekurhuleni may suffer as a result of having to make less favourable arrangements; and/or
- ☐ Deduct from the contract price, as a penalty, a sum calculated on the delivered price of the delayed goods or unperformed services using the current prime interest rate calculated for each day of the delay until actual delivery or performance. A written notice to the effect shall be issued to the contractor by registered mail.

22.22.7 The National Treasury shall be informed when such cases come to light so that they may decide on suitable action.

22.23 RESTRICTION

22.23.1 EMM may in terms of Treasury Regulations 16A9.2:

- ☐ Disregard the bid of any bidder if that bidder, or any of its directors-
 - Have abused EMM's SCM system;
 - Have committed fraud or any other improper conduct in relation to such system; or
 - Have failed to perform on any previous contract; and→ Shall inform the National Treasury of any action taken in terms of the aforementioned paragraph.

22.23.2 In terms of The Prevention and Combating of Corrupt Activities Act, only the National Treasury is empowered to impose restrictions on providers who were found guilty by a court of law for criminal offences related to public sector bids.

22.24 CONTRACT TERMINATION

22.23.3 EMM shall cancel a contract awarded to a supplier of goods or services:

22.24.1.1 If the supplier committed any proven corrupt or fraudulent act during the bidding process or the execution of that contract.

22.24.1.2 If any official or other role player committed any proven corrupt or fraudulent act during the bidding process or the execution of that contract that benefited the supplier.

22.24.1.3 Termination of a contract may be considered for a variety of reasons, as stipulated in the general conditions of contract, such as delayed deliveries, failing to perform any other contractual obligation or if the supplier has engaged in corrupt and fraudulent practices and insolvency.

22.24.1.4 Contract termination may be effected if allowed for in the contractual conditions and if both parties agree to the termination in writing.

22.25 OBJECTIONS AND COMPLAINTS

- 22.25.1 Persons aggrieved by decisions or actions taken in the implementation of this SCM system, may lodge within 14 days of the decision or action, a written objection or complaint against the decision or action.

22.26 RESOLUTION OF DISPUTES, OBJECTIONS, COMPLAINTS AND QUERIES

- 22.26.1 The CM shall appoint an independent and impartial person, not directly involved in the SCM processes EMM.
- 22.26.2 The CM, or another official designated by the CM, is responsible for assisting the appointed person to perform his or her functions effectively.

SECTION 23 LOGISTICS MANAGEMENT

23.1 REQUISITION

- 23.1.1 No issuing of store items or the commencement of the procurement process may take place without a properly completed requisition form.

23.2 ORDER ADMINISTRATION

- 23.2.1 An order shall be placed based on the existence of a valid contract, bid or quotation (whichever is applicable) after the procurement process.
- 23.2.2 Each order shall be appropriately authorised by the delegated person.
- 23.2.3 Only orders created via the official EMM mechanism will be deemed valid by EMM.
- 23.2.4 A procurement file detailing the contract, bid, quotations, the conditions and a history of execution shall supplement each contract.

23.3 STORES MANAGEMENT

- 23.3.1 The store function is the receiving, storing as well as the issuing of inventory.
- 23.3.2 Equipment or stock shall be stored in such a way that the possibility of loss, damage, exposure, deterioration or perishing thereof is minimised or eliminated completely. By lack of a physical store, the function shall still be performed.
- 23.3.3 Stores and equipment may not be received or issued unless the necessary documentation is available for such transactions and is duly signed.
- 23.3.4 Duplicate keys of all lockers, cabinets, padlocks and other storage areas should be readily available and shall be controlled by a responsible delegated official.

23.4 PROCEDURE FOR THE RECEIPT OF GOODS

23.4.1 Items shall be delivered to the official responsible for the receiving function of a specific item at the relevant department.

23.4.2 Check items for quality, quantity and if delivered according to specification.

23.5 CODING OF ITEMS

23.5.1 All fixed assets are to be classified in terms of a unique identifying item number and description.

23.5.2 All items shall be classified as either a non-consumable or consumable item for accounting purposes.

23.6 INVENTORY MANAGEMENT

23.6.1 In cases where storage space is very expensive or not available, the just-in-time delivery principle shall be used.

23.6.2 Minimum and maximum inventory levels for all store items shall be determined based on the usage, the lead and delivery times.

23.7 ASSET MANAGEMENT

23.7.1 An asset record shall be kept per office to determine which assets and quantities have been issued to a specific asset controller/holder.

23.7.2 Asset controllers shall be appointed in writing.

23.7.3 All assets on asset records shall be marked with a unique identifying asset number.

23.8 FIXED ASSET REGISTER

23.8.1 A central fixed asset register of all applicable assets or groups of assets of EMM shall be maintained at the finance division.

23.9 STOCKTAKING

23.9.1 All assets shall be kept on record on an asset record are to be subjected to a stock take at least once every financial year.

23.9.2 A stock take programme shall be compiled.

23.9.3 A stock take report shall be produced.

23.10 HANDING AND TAKING OVER PROCEDURES

- 23.10.1 Uninterrupted determination of responsibility and accountability shall be maintained at all times. To ensure continuity, formal handing and taking over should take place whenever there is a change in personnel.
- 23.10.2 All stores and equipment discrepancies shall be properly recorded, investigated and records adjusted accordingly, when handing and taking over are effected between officials.

23.11 DISCREPANCIES

- 23.11.1 Discrepancies are to be investigated as it is identified.
- 23.11.2 The investigation report with recommendations shall be submitted to the CM or delegate to decide whether identified losses are recoverable or irrecoverable. Losses or damages suffered by EMM because of an act committed or omitted by a person working for EMM, shall be recovered from such a person, if such a person is liable by law.

SECTION 24 DISPOSAL MANAGEMENT

24.1 SYSTEM OF DISPOSAL MANAGEMENT

- 24.1 The disposal management system shall provide for the disposal or letting of assets, including unserviceable, redundant or obsolete assets, subject to Section 14 of the MFMA.

24.2 OBSOLESCENCE PLANNING

- 24.2.1 An obsolescence plan shall be determined for each asset to ensure that when the asset can no longer be maintained or used for its original purpose, that there is a plan to replace it.
- 24.2.2 In addressing obsolescence risks, it should be remembered that obsolescence in an item is not a problem for users until the item is required to be repaired or replaced. Action to eliminate the obsolete item need only be taken when the stock level threatens the availability of the equipment.
- 24.2.3 Once identified, each obsolescence risk needs to be assessed to determine its criticality point. This is based on the impact of the risk to both capability and cost. What is crucial to the assessment of obsolescence risk is not the time at which a unit or component goes obsolete, but when as a result of the obsolescence, equipment availability will be threatened, the factors are:
 - 24.2.4 Criticality point
 - 24.2.4.1 This is the point in time at which availability of the equipment is threatened by lack of parts and/or spares, i.e. the point at which the risk goes critical. Identifying this point provides a benchmark against which all mitigation options can be considered.

24.3 COST IMPACT

- 24.3.1 This is determined by the expected costs that would be incurred to solve the problem if no action is taken until the time of occurrence of the obsolescence.

24.4 PRIORITISATION

- 24.4.1 Prioritise all current obsolescence risk by order of the point of criticality and in order of cost. The items can then be ranked in terms of risk, so that those items with the shortest time to threatened availability and the highest cost impact are most significant. The most critical will then need to be considered further for resolution of the specific problems.
- 24.4.2 For each obsolescence risk, it needs to be decided what technology option is to be adopted, the support which is to be provided, the contracting arrangements needed, the maintenance policy which is implied and the identification of any consequential risks.

24.5 RENEWAL PLANNING

- 24.5.1 A renewal plan shall be determined for assets that have reached the end of its useful life.
- 24.5.2 The asset renewal-planning phase involves the assessment of existing assets and planned acquisitions against service delivery requirements.
- 24.5.3 All assets currently being used to deliver the service under consideration need to be identified and registered. How effectively these assets support service requirements also have to be determined.

24.6 DISPOSAL STRATEGY

- 24.6.1 EMM shall establish a disposal strategy to determine the best mechanism of disposal for each asset.
- 24.6.2 Immovable property may be sold only at market related prices except when the public interest or the plight of the poor demands otherwise.
- 24.6.3 Moveable assets may be sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous to EMM.
- 24.6.4 In the case of the free disposal of computer equipment, educational institutions shall first be approached to indicate within 30 days whether any of the local educational institutions are interested in the equipment. If there is no need, computer equipment may be disposed of by another approved disposal mechanism.
- 24.6.5 In the case of the disposal of firearms, the national Conventional Arms Control Committee has to approve any sale or donation of firearms to any person or institution within or outside the Republic.
- 24.6.6 Immovable property is let at market related rates except when the public interest or the plights of the poor demands otherwise.

- 24.6.7 All fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed.

24.7 ALTERNATIVES TO DISPOSAL

- 24.7.1 Where assets have been identified as under-performing, or no longer functionally suited to programme delivery needs, consideration should be given to possible alternatives to disposal e.g. by adapting the asset to another function or using it in another programme; refurbishment or an upgrade of the asset may also be viable.

24.8 METHODS OF DISPOSAL

- 24.8.1 EMM may:
- 24.8.1.1 Transfer an asset to another organ of state in terms of a provision of the MFMA enabling the transfer of assets, or
 - 24.8.1.2 Transfer an asset to another organ of state at market related value or, when appropriate, free of charge, or
 - 24.8.1.3 Donate
 - 24.8.1.4 Sell the asset, or
 - 24.8.1.5 Destroy the asset
 - 24.8.1.6 EMM shall ensure that where assets are traded in for other assets, the highest possible trade-in price is negotiated.

24.9 DISPOSAL DECISION

- 24.9.1 Asset disposal decisions are to be made within an integrated, service and financial planning framework. To make a disposal decision, the following documents are important:
- ☐ The obsolescence plan
 - ☐ The renewal plan
 - ☐ The list of unserviceable items
 - ☐ The list of obsolete items
 - ☐ The list of redundant items.

24.10 DISPOSAL PROCESS

- 24.10.1 As soon as it has been established that stores/equipment are unserviceable, obsolete and/or redundant, and that they should be disposed of, it shall be reported.
- 24.10.2 Once the decision is made to dispose of items, the disposal process dictates different procedures for obsolete or redundant items and unserviceable items.
- 24.10.3 The disposal certificate and disposal register shall be completed.

24.11 DISPOSAL OF CAPITAL ASSETS

- 24.11.1 EMM may not transfer ownership as a result of a sale or other transaction or otherwise permanent dispose of a capital asset needed to provide the minimum level of basic municipal services.
- 24.11.2 EMM may transfer ownership or otherwise dispose of a capital asset other than one mentioned above, only after the Council of EMM, in a meeting open to the public made certain determinations.

SECTION 25 SUPPLY CHAIN PERFORMANCE MEASUREMENT, RECORDING AND REPORTING

25.1 INTRODUCTION

- 25.1.1 EMM shall submit to the National Treasury, Provincial Treasury and the Auditor-General such SCM information as they may require and in such format and at such intervals as specified.
- 25.1.2 EMM will implement a system of performance measurement, recording and, reporting to facilitate the above and to promote good governance.

25.2 ASSESSMENT/MEASUREMENT OF SUPPLY CHAIN PERFORMANCE

- 25.2.1 Performance Management depicts the final element in the SCM cycle but should not be seen in isolation as the monitoring processes often occur concurrently with all the other elements in the SCM cycle. The process consists of a retrospective analysis to determine whether the proper process was followed and whether the desired outcomes were achieved.
- 25.2.2 The EMM shall establish and implement an internal monitoring system in order to determine the basis of a retrospective analysis whether the authorized Supply Chain Management processes were followed and whether the objectives of this Policy were achieved.
- 25.2.3 Performance monitoring include, to:

- 25.2.3.1 Measure performance in terms of achievement of SDM goals;
- 25.2.3.2 Measure compliance with norms and standards;
- 25.2.3.3 Determine savings generated;
- 25.2.3.4 Determine cost variance per item to indicate the premium paid for promoting preferential objectives;
- 25.2.3.5 Identify any breach of contract;
- 25.2.3.6 Determine cost efficiency of the acquisition process;
- 25.2.3.7 Determine whether SCM objectives are consistent with Government's broader policy focus;
- 25.2.3.8 Determine whether the principles of co-operative governance as expounded in the Constitution are observed;
- 25.2.3.9 Evaluate whether the reduction of regional economic disparities is promoted;
- 25.2.3.10 Establish any non-compliance with contractual conditions and requirements; and
- 25.2.3.11 Assess the efficiency of stores.
- 25.2.4 The performance management system shall accordingly focus on, amongst others:
 - 25.2.4.1 An effective SCM Performance Management System should be developed and implemented in accordance with departmental policies and procedures and applicable legislative requirements. Broadly speaking, SCM Performance can be measured in terms of the following:
 - ☐ Suppliers of goods and services
 - ☐ The SCM Unit
 - ☐ Service Delivery Realisation and or Value for money
 - 25.2.4.2 The Monitoring of Suppliers
 - 25.2.4.3 The monitoring of suppliers should form the basis of Contract Management activities where certain aspects should be monitored and reported on. These reporting elements include but are not confined to the following:
 - 25.2.4.3.1 A database of contracts awarded, conclusion of Service Level Agreements
 - 25.2.4.3.2 Monitoring of the supplier according to the stipulations of the SLA,
 - 25.2.4.3.3 Documenting any deviation or non-performance by the supplier,
 - 25.2.4.3.4 It is also recommended that at the completion stage of each project, an assessment of the supplier/service provider (including consultants where applicable) be undertaken and that this assessment be available for future reference i.e. Close out Report with final payment made to supplier.
 - 25.2.4.3.5 A review of the relationship with suppliers and the improvements needed to enhance efficiencies across the supply chain.
- 25.2.5 MONITORING OF THE SCM UNIT
 - 25.2.5.1 The various elements of the SCM Cycle should be monitored for adherence to the relevant legislative requirements and internal departmental policy and procedure. The SCM Unit should further be monitored for key requirements under the following elements:
 - 25.2.5.2 Monitoring and evaluation of SCM policy and its delegations, training obligations, the constitution of bid committees and all relevant statutory requirements;
 - 25.2.5.3 Planning and budgeting for all procurement and service delivery needs;

- 25.2.5.4 Compliance to SCM policy and prescripts in respect of acquisitions; logistics; disposal and contract management;
- 25.2.5.5 Reporting requirements to key stakeholders
- 25.2.5.6 Service Delivery Realisation and or Value for money
- 25.2.6 MONITORING OF PROCUREMENT FOR:
 - 25.2.6.1 The extent to which the objectives of the organisation were met through procurement activities i.e. Socio-economic targets, financial targets etc.
 - 25.2.6.2 Adherence to the five pillars of procurement especially value for money, which is defined as the best available outcome when all relevant costs and benefits over the acquisition period is considered.

25.3 RECORD KEEPING

25.3.1 ARCHIVING OF PREDETERMINED TARGETS

- 25.3.1.1 EMM shall gather as much information as possible on a continuous basis to adapt to the changing environment and Government's reporting requirements pertaining to SCM.
- 25.3.1.2 Keeping complete records pertaining to SCM will assist EMM in their performance monitoring and reporting role.
- 25.3.1.3 Apart from records, EMM should also maintain a proper filing system per case.

25.3.2 RECORD KEEPING STRUCTURE

- 25.3.2.1 The necessary information, to satisfy the internal and external reporting requirements, has to be kept in an orderly manner. The gathering of information and recording system shall provide for the type of information required, deadlines and the allocation of duties and responsibilities.
- 25.3.2.2 Please note that record keeping does not replace the normal filing system that contains the hard copy of each case.
- 25.3.2.3 The necessary records can be maintained either manually or electronically and does not have to be a formal register. As such a list or spread-sheet will suffice. Information can be incorporated into a single record where possible. The consolidation of the required returns and forwarding thereof has to be allocated to the responsible person or section.

25.3.3 RECORDS TO BE KEPT

- 25.3.3.1 Record of verbal and written quotations and formal written quotations
- 25.3.3.2 Verbal and written quotations:
- 25.3.3.3 Formal written price quotations
- 25.3.3.4 List of bid documents issued
- 25.3.3.5 Record of ad hoc bids
- 25.3.3.6 Record of Specific Term Contracts
- 25.3.3.7 Record of deviation processes
- 25.3.3.8 Record of complaints received from bidders or contractors
- 25.3.3.9 Record of declaration of interest
- 25.3.3.10 Record of gifts received
- 25.3.3.11 Record of instances of fraud or corruption
- 25.3.3.12 Record of irregular, fruitless and wasteful expenditure
- 25.3.3.13 Record of circulars distributed within EMM

25.4 AD HOC REPORTING OBLIGATIONS

25.4.1 The CM of EMM shall submit to the Council, the Gauteng Provincial Treasury, the National Treasury, the Department for Local Government in the Province or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.

Table 6

| REPORTING OBLIGATION | REPORT TO |
|---|--|
| <input type="checkbox"/> If the CM is unable to comply with any of the responsibilities in terms of the MFMA, he/she shall promptly report the inability, together with reasons. | <input type="checkbox"/> Council |
| <input type="checkbox"/> The CM of EMM shall report any deviations between this SCM Manual and the guideline standard. | <input type="checkbox"/> Council |
| <input type="checkbox"/> If EMM procures goods or services as contemplated in section 110(2) of the MFMA, they shall make public the fact that it procures such goods or services otherwise than through its SCM system, including: <ul style="list-style-type: none">▪ The kind of goods or service.▪ The name of the supplier. | <input type="checkbox"/> Shall make public |

| REPORTING OBLIGATION | REPORT TO |
|---|--|
| <input type="checkbox"/> If a bid other than the one recommended in the normal course of implementing the SCM policy is approved, the CM shall within 10 working days , in writing, notify the role players of the reasons for deviating from such recommendation. | <input type="checkbox"/> Auditor-General <input type="checkbox"/> Gauteng Provincial Treasury <input type="checkbox"/> National Treasury <input type="checkbox"/> |
| <input type="checkbox"/> If EMM disagrees with comments from SITA in terms of MFMA Regulation 31(4), the comments and the reasons for rejecting or not following such comments shall be submitted to the role players. | <input type="checkbox"/> Council <input type="checkbox"/> National Treasury <input type="checkbox"/> Provincial Treasury <input type="checkbox"/> Auditor-General |
| <input type="checkbox"/> The CM shall record the reasons for any deviations from the procurement processes and report them to the next meeting of the Council. | <input type="checkbox"/> The Council <input type="checkbox"/> |
| <input type="checkbox"/> If EMM decides to consider an unsolicited bid, EMM shall make its decision public and once EMM has received written comments on this issue, it shall submit such comments, including any responses from the unsolicited bidder, to the role players for comment. <ul style="list-style-type: none"> ▪ If any recommendation of the Council, the CM shall submit within 7 days, to the role players the reasons for rejection or not following those recommendations. | <input type="checkbox"/> National Treasury <input type="checkbox"/> Gauteng Provincial Treasury <input type="checkbox"/> Council |
| <input type="checkbox"/> The CM shall inform the role players in writing of any actions taken in terms of MFMA Regulation 38(1)(b)(ii), (e) or (f) (system abuse, fraud and corruption and contract cancellation). | <input type="checkbox"/> Council <input type="checkbox"/> National Treasury <input type="checkbox"/> Gauteng Provincial Treasury |
| <input type="checkbox"/> Officials or role players shall report to the CM any alleged irregular conduct in the SCM system which that person may become aware of, including: <ul style="list-style-type: none"> ▪ Any alleged fraud, corruption, favouritism or unfair conduct. ▪ Any alleged contravention of MFMA regulation 47(1) (gifts/rewards). ▪ Any alleged breach of the code of ethical standards. | <input type="checkbox"/> CM |

| REPORTING OBLIGATION | REPORT TO |
|---|--|
| <input type="checkbox"/> The CM shall promptly report any alleged contravention of MFMA Regulation 47(1) and (2). | <input type="checkbox"/> National Treasury |
| <input type="checkbox"/> The CM promptly discloses any sponsorship promised, offered or granted to EMM. | <input type="checkbox"/> National Treasury <input type="checkbox"/> Gauteng Provincial Treasury |
| <input type="checkbox"/> On discovery of any irregular expenditure or any fruitless and wasteful expenditure, the CM shall inform the Council, who shall promptly report, in writing, to the role players: <ul style="list-style-type: none"> ▪ Particulars of the expenditure. ▪ Any steps that have been taken: <ul style="list-style-type: none"> → To recover the expenditure. → To prevent a recurrence of the expenditure. | <input type="checkbox"/> The Council <input type="checkbox"/> The Mayor and the Municipal Manager <input type="checkbox"/> Auditor-General |
| <input type="checkbox"/> The Council shall promptly report any: <ul style="list-style-type: none"> ▪ Irregular expenditure that may constitute a criminal offence. ▪ Other losses suffered by EMM which resulted from suspected criminal conduct | <input type="checkbox"/> Council <input type="checkbox"/> Auditor-General <input type="checkbox"/> SAPS (if criminal offence) |

25.5 MONTHLY REPORTING

| REPORTING OBLIGATION | REPORT TO |
|---|----------------------------------|
| <input type="checkbox"/> The CM or delegate shall report monthly on the following aspects: <ul style="list-style-type: none"> ▪ Total procurement spend. ▪ Percentage of total spend directed towards BEE against target. ▪ Targeted percentage spend to be directed towards BEE ▪ All declarations of interest by the CM shall be made to the Council. ▪ Process disputes. ▪ Unsolicited bids considered and accepted with consent of other role players. ▪ The CM shall, on a monthly basis report on the management of contracts or agreements and the performance of the relevant contractors. | <input type="checkbox"/> Council |

25.6 QUARTERLY REPORTING

Table 7

| REPORTING OBLIGATION | REPORT TO |
|---|--|
| <input type="checkbox"/> The CM shall within 10 days after the end of each quarter submit implementation reports on the SCM policy. | <input type="checkbox"/> The Council |
| <input type="checkbox"/> If it is not possible to obtain at least 3 written or verbal quotations, the reasons shall be recorded and reported. | <input type="checkbox"/> CM or another official designated by the CM |

25.7 ANNUAL REPORTING

- 25.7.1 The CM shall at least annually within 20 days of the end of the financial year, submit reports on the implementation of the SCM policy as contained in the SCM Manual to the Council within 30 days of the end of the financial year.
- 25.7.2 The CM of EMM shall at least annually review the implementation of the SCM policy as contained in the SCM Manual, inform the Council of its correctness and applicability and, if necessary; submit proposals for the amendment of the Manual to the Council.
- 25.7.3 Disclose particulars of non-compliance with the MFMA from a SCM perspective.

Table 8

| REPORTING OBLIGATION | REPORT TO |
|--|--------------------------------------|
| <input type="checkbox"/> The CM shall at least annually within 20 days of the end of the financial year , submit reports on the implementation of the SCM policy as contained in the SCM Manual to the Council within 30 days of the end of the financial year . | <input type="checkbox"/> Council |
| <input type="checkbox"/> The CM of EMM shall at least annually review the implementation of the SCM policy as contained in the SCM Manual, inform the Council of its correctness and applicability and, if necessary, submit proposals for the amendment of the Manual. | <input type="checkbox"/> The Council |
| <input type="checkbox"/> The notes to the annual financial statements of EMM shall: | |

| REPORTING OBLIGATION | REPORT TO |
|---|------------------|
| <ul style="list-style-type: none"> ▪ Disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including: <ul style="list-style-type: none"> → The name of that person. → The capacity in which that person is in the service of the state. → The amount of the award. ▪ Disclose the reasons for any deviations from the procurement processes. ▪ Disclose particulars of any material losses and any material irregular or fruitless and wasteful expenditure that occurred during the financial year and whether these are recoverable. ▪ Disclose particulars of any criminal or disciplinary steps taken as a result of such losses or such irregular or fruitless and wasteful expenditures. ▪ Disclose particulars of non-compliance with the MFMA from a SCM perspective. | |

25.8 REPORTING TO NATIONAL TREASURY

25.8.1 SCM IMPLEMENTATION

25.8.1.1 EMM shall continue to report to National Treasury on their progress in the implementation of SCM if there are any changes from year to year.

25.8.2 CONTRACTS REPORTING QUESTIONNAIRE

25.8.2.1 EMM shall submit reports electronically (on the National Treasury PCI system) to National Treasury in respect of each contract above the value of R100 000 (all applicable taxes included) concluded during that month within 15 days of the end of each month.

25.8.3 IRREGULAR EXPENDITURE REPORTING

25.8.31 Report all irregular expenditure immediately to the National Treasury.

25.8.4 RESTRICTIONS IMPOSED BY EMM

25.8.4.1 Report all restrictions imposed by EMM immediately to the National Treasury.

25.8.5 UNSOLICITED PROPOSALS

25.8.5.1 Upon receipt of an unsolicited proposal, EMM shall (in writing) notify the National Treasury contact person within ten (10) working days of such receipt.

25.9 REPORT TO THE DTI

25.9.1 EMM shall, within 5 working days after the award of a contract that is in excess of R 10 million, submit details of such a contract to the NIPP section of *the DTI*.

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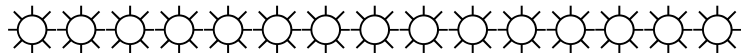
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IDP and BUDGET

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TREASURY POLICY

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CHAPTER 1

INTRODUCTION

In terms of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) ("MFMA"), the City of Ekurhuleni Metropolitan Municipality (CoE) needs to have a budget and treasury office. CoE's treasury office (Treasury) serves as internal banker of CoE and municipal owned entities (MOEs) and is, in general terms, responsible for cash management and borrowing. A policy has to be implemented to streamline and harmonise the activities and functions of Treasury. The areas of responsibility covered by Treasury, amongst others, include financial risk management, cash management, investments, financing, hedging, settlements, accounting and reporting.

This policy does not cover the functions of accounts receivable, accounts payable, financial accounting and reporting relating to the core operations of CoE. The purpose of this policy is to provide a comprehensive set of policy directives and guidelines to regulate Treasury and related activities of COE. In addition, it is also designed to provide an easy reference for any new staff member in Treasury and interested parties.

It is necessary that the contents of this policy be fully understood by all personnel in Treasury and all stakeholders. The awareness of controls and the extent to which they are interdependent is as important as their documentation.

For the purpose of asset-liability and financial risk management, Treasury, as instructed or when the need arises, reports to:

- The Asset and Liability Management Committee ("ALCO");
- The Audit Committee;
- The section 79 Committee;
- The Mayoral Committee; and
- COE Council.

TREASURY PURPOSES AND MISSION

The following statements have been adopted by Treasury and support the overall mission statement of CoE:

VISION

To provide effective and efficient financial services to CoE to ensure that its strategic objectives are met.

PURPOSE

To ensure prudent debt, cash management and financial risk management resulting in reduced borrowing at the most cost effective rate within the financial markets and regulatory framework in which CoE operates.

MISSION

Treasury shall achieve its objective by:

- Providing a cost effective and efficient service to all the relevant stakeholders.
- Striving to realise the highest possible investment returns for CoE, while at the same time aiming to ultimately eliminate its CAPEX backlog.
- Continuously monitoring and managing CoE's debt profile.
- Improve the debt profile of CoE to reduce the overall cost of borrowing.
- Keeping abreast with the latest available and applicable technology for the delivering of services.
- Continuously disseminating relevant, transparent and accurate information timeously to stakeholders.
- Marketing services internally and externally within the local government sector.
- Maintaining and continually improving staff, skills and expertise.

1.2 TREASURY POLICY STATEMENT

The Council, authorised personnel from Municipal Owned Entities, senior management of CoE together with Treasury staff have committed to this policy, which details a strategy and process of financial risk management that complies with relevant legislation, regulations and policies.

Effective financial risk management is imperative to any organisation. The realisation of CoE's business strategy depends on Treasury being able to take calculated financial risks within CoE's risk tolerance. Sound management of financial risk will enable CoE to anticipate and respond to changes in the market environment, as well as make informed decisions under conditions of uncertainty.

It is expected that financial risk management processes shall become embedded in the business systems and processes, so that the responses to risk remain current and dynamic.

Every employee within Treasury has a part to play in this important endeavour and is obliged to perform his/her duties within the parameters set by this policy.

1.3 ROLE AND RESPONSIBILITY OF TREASURY

The objective of this section is to lay down the framework, which drives CoE's specific approach to its financial risk management and treasury activities.

The section is critical in shaping the overall environment for financial risk management and provides reference points against which future refinements and enhancements to Treasury can be measured. It is of paramount importance to note that financial risk management has to see against the background of the King II Report (to be updated with King III) on Corporate Governance.

The decisions taken by Treasury are merely a way of transacting investment, funding and hedging decisions in the financial market place and in accordance with the provisions of the MFMA. The role of Treasury is to provide liquidity to CoE and its MOEs by sourcing the most efficient financial instruments at the best price and to administer and account for such instruments within the bounds of this policy. It is important that Treasury personnel have the skills to support CoE's on-going financial risk management activities and to ensure that these are carried out in the best interests of CoE.

CoE's financial risk management activities can add value and provide the means by which stakeholders' requirements are met. Treasury may execute specific strategies when the Asset and Liability Committee (ALCO) has approved its recommendations, as and when required, given the market conditions and provided the required approvals have been obtained.

Treasury activities of CoE and MOEs shall be centralized.

Treasury comprises of 4 core sections as outlined below

| TREASURY ARCHITECTURE | | | |
|-----------------------|--------------------------------|-----------------------------|------------------------------------|
| FRONT OFFICE | MIDDLE OFFICE | BACK OFFICE | INVESTOR RELATIONS |
| Market Interface | Risk Identification | Settlements | Stakeholder Communication Strategy |
| Execution | Valuations | Reconciliations | Reputational Risk |
| Structuring | Risk Measurement | Accounting | |
| | Risk & Cashflow Analysis | Reporting | |
| | Risk Monitoring | Bank Account Administration | |
| | Risk Reporting | Loans Administration | |
| | Compliance | | |
| | Training & Risk Awareness | | |
| | Development of Risk Strategies | | |

1.4.1.1 FRONT OFFICE

A. DEFINITION

The front office is an area where the execution of trading and funding activities are performed. This office is headed up by Head of Dealing and comprises of the capital market, money market and strategic dealing desks.

B. ROLES

Market Interface

This involves relationship management with both counterparties and institutional investors to support cash management, funding and hedging activities. This would include regular funding report back sessions and road shows to market participants.

Management - Head of Dealing

Execution – money market

The money market dealer transacts all vanilla money market products and instruments with a view of enhancing the returns on surplus cash and managing the money market investment portfolio.

Execution – capital market

The capital market dealer transacts all vanilla fixed income products and instruments with an objective of optimizing all long-term borrowings.

Execution – strategic dealer

The strategic dealer performs all valuations and pricing on both vanilla and structured products to establish their viability, as well as managing CoE's hedge book. The strategic dealer also compiles the CAPEX funding plan in conjunction with CoE's Budget Office.

1.4.1.2 MIDDLE OFFICE

A. DEFINITION

The middle office is the area where Treasury's financial risk management and compliance activities are performed.

B. ROLES

Risk identification

This involves the acknowledgement of all the Treasury financial risks that CoE could potentially be exposed to given the nature of its operations and objectives.

Valuations and risk measurement

Independent valuation of all transactions that shall be used for financial risk management and accounting processes shall be conducted. This will also include scenario analysis on all the positions to quantify CoE's financial risk exposure.

Risk and cash flow analysis

This involves the creation and maintenance of financial risk and economic databases that are used to provide context within which financial risk limits are set and exposures taken are evaluated. Provision of consolidated cash-flow financial risk management analysis will also be performed.

Risk monitoring

Financial risk exposures across CoE are evaluated against financial risk limits and exceptions are reported upon.

Risk reporting

This involves systematic design and generation of financial risk reports that present financial risk exposures, limits and performance data in a format that allows for ease of analysis.

Compliance

This entails the provision of assurance on compliance with legislation and policies.

Training on risk awareness

Financial risk awareness interventions and the provision of education on financial risk will take place.

Development of Risk Strategies

This involves the development of strategies to mitigate potential risks.

1.4.1.3 BACK OFFICE

A. DEFINITION

The back office acts as a general support unit within Treasury.

B. ROLES

Settlements and confirmations

This involves the independent settlement of transactions that were executed in the front office and the settlement and drafting of loans relating to CAPEX to MOEs.

Reconciliations

This involves daily reconciliations of dealing activities, including reconciliation of the bank account against transactions executed.

Accounting and reporting

This involves the posting of positions, valuations and accruals arising out of settled transactions and all the other accounting activities for Treasury.

Reporting

Bank account administration

Administration of bank accounts externally and internally.

1.4.1.4 INVESTOR RELATIONS

A. DEFINITION

The Investor Relations unit seeks to market the Treasury division as a plausible vehicle in managing the finances of CoE. It seeks to market the Treasury as the engine room from where CoE's finances are managed in accordance with prevailing guiding statutes. This entails creating relationships with the investor community to the extent that they think of CoE as their first priority when needing to diversify their portfolios, be it in the short- or long-term horizon. Through focusing on pro-active, continuous, and transparent communication, the investor relations unit strives for market leadership in the local government arena.

B. ROLES

The Investor Relations unit is active over a large segment of CoE's value chain, and in collaboration with the Communications and Marketing department, the unit is constantly looking for ways to add value beyond media relations. It entails such communication as changes in financial, credit ratings and overall policies of CoE including changes to senior Treasury management.

We seek to develop a channel through which investors can contact as a point of departure for any investment needs within CoE, and provide a service that has a specific added value for our customers, in enhancing CoE's mandate of delivering services to the local communities it services. This frequently involves close joint development efforts from all stakeholders.

From an investor relations perspective, this unit aims to safeguard the business of the Treasury through sound communication strategies and aims to maintain a strong investor focus that eliminates and/or minimizes CoE's reputational risks. This vision, links, is tied to and compliments the overall Marketing Strategy of CoE and City events. The Investor Relations unit, therefore, serves as the mouthpiece for all Treasury communication that is released to both the investor community and the public domain.

1.5 REVIEW AND APPROVAL OF POLICY

This policy will be reviewed annually by the Chief Financial Officer to ensure congruence with changing needs, technology, evolving regulatory standards with the MFMA, Investment regulations, and private sector best practices. The process to be followed for the annual revision of the policy will be via the committee system of Council as part of the annual Budget Process.

CHAPTER 2

2 PRINCIPLES

The following statements of principle provide a framework underpinning CoE's approach to financial risk management. It serves as points of reference for the further development of Treasury's functions and activities and indicates CoE's understanding of the broader aims and purposes of treasury management.

CoE needs to manage the risks for the following reasons:

- Strategic considerations such as the protection of vulnerable business units, financial and other assets of CoE.
- To assist CoE in achieving its budgeted income and expenditure levels.
- The maintenance of sound liquidity levels such that optimal returns on surplus cash are realised and interest on borrowings are minimised.
- Ensuring that CoE's investment grade rating is maintained or improved by ensuring that accounting ratios fall within required limits.
- To identify continuity risk within strategic business units (knowledge sharing & skills transfer).
- To ensure sustainable financial viability of CoE by avoiding the occurrence of unnecessary/uncontrolled losses that could arise as a result of exposure in the financial markets. Adverse fluctuations if not properly controlled, could weaken the overall financial position of CoE.
- To protect the financial position of CoE.
- To assist the Metro's MOE's and departments in identifying various financial risk elements which fall out of CoE's risk parameters and devising appropriate control measures.

2.1 GENERAL PRINCIPLES

- 2.1.1 CoE will comply with corporate governance guidelines in line with the requirements of applicable legislation as practiced in South Africa.
- 2.1.2 Treasury will act as internal central banker for the departments and municipal owned entities through the issue of notional loans and deposits at market related rates.
- 2.1.3 CoE will engage in financial market activities through its centralized treasury division.
- 2.1.4 Treasury will act as the principal borrower and investor for CoE's and its municipal owned entities' overall funding requirements to ensure that the most favourable terms, conditions and rates are obtained. This is also done to ensure that all the borrowings are centralised and that CoE's primary debt management is maintained.
- 2.1.5 Where necessary, CoE will provide securities or guarantees for the municipal owned entities' operational requirements, e.g. leases of premises.

2.2 FINANCIAL RISK MANAGEMENT PRINCIPLES

- 2.2.1 The financial risk management of CoE shall be subject to relevant legislation and policies.
- 2.2.2 The financial risk management activities must ensure a consistent approach to financial risk management to support business objectives and activities.
- 2.2.3 Before undertaking any activities, Treasury must ensure that all financial risks are identified for the purpose of financial risk management and reporting.
- 2.2.4 CoE's financial risk management activities shall add value and provide a means by which the stakeholders' requirements are met.
- 2.2.5 CoE's financial risk management system and process must be robust in respect of financial risk and financial market activities".
- 2.2.6 CoE has financial market exposure on both its assets and liabilities and these risks shall be managed jointly, taking into account the impact of adverse movements in financial market prices on net income.
- 2.2.7 CoE has financial market exposure on both its assets and liabilities and these risks shall be managed jointly, taking into account the impact of adverse movements in financial market prices on net income.
- 2.2.8 Treasury is responsible for monitoring all financial markets risk to which CoE may be exposed, identifying opportunities for natural set-off or risks and managing the resultant net exposure in the most cost effective manner.
- 2.2.9 Hedging activities shall only be undertaken by Treasury in accordance with the provisions of relevant legislation.
- 2.2.10 Implemented financial risk management strategies should ensure robust outcomes, so that a high degree of certainty regarding their outcome is achieved across a wide spectrum of possible rate and price movements, thereby eliminating undue adverse risks, while taking appropriate account of relevant short and long term costs. In order to achieve the above CoE believes that an acceptable low-cost risk approach shall be adopted and that Treasury should therefore operate as a cost centre and not a profit centre.
- 2.2.11 Treasury should have performance measures for all its financial activities and such criteria must be linked to both external benchmarks e.g. market rates as well as internal benchmarks such as the budget and net income.
- 2.2.12 Treasury should act responsibly and remain aware of on-going market developments to ensure that it continues to develop in a manner that provides clearly identifiable benefits to CoE over the long term.
- 2.2.13 Treasury shall only transact business with approved counterparties, either directly or by making use of brokers/intermediaries who can add value to CoE's business without increasing the associated risk.
- 2.2.14 CoE should treat counterparties fairly and apply high ethical standards in a competitive environment.

CHAPTER 3

3 POLICIES

There are various financial risks facing an organization, on a regular basis, which necessitate vigilance and precautionary measures. These include liquidity risk, interest rate risk and credit risk, of which liquidity risk is the most critical for CoE. These financial risks are managed within the principles laid down by CoE and the specific policies addressing each of the financial risks.

The Treasury Policy consists of the following policies:

- Liquidity Risk and Cash Management Policy
- Funding Policy
- Investment Policy
- Interest Rate Risk Policy
- Credit Risk Policy
- New Instruments Policy
- Foreign Exchange Risk Policy
- Inflation Risk Policy
- Treasury Back Office Policy
- Dealing Policies
- Information Risk Management Policy
- Asset-backed Finance Policy
- Procurement Policy
- Ring-fencing Policy
- Process flow audit Policy

3.1 LIQUIDITY RISK AND CASH MANAGEMENT POLICY

3.1.1 DEFINITION

Liquidity refers to the ease with which an organisation can mobilise funds. Liquidity risk, therefore, is the risk that CoE may not have funds available to meet promptly all maturing liabilities, including demand deposits, off-balance sheet commitments or any other financial obligations on a cost effective and on a timeous basis.

Mismanagement of liquidity will have quicker and more severe repercussions than any other risks. Thus, remaining liquid is a precondition for achieving the required business objectives.

3.1.2 POLICY

- 3.1.2.1 Making appropriate use of cash management and forecasting systems.
- 3.1.2.2 Reviewing economic forecasts and information on a regular basis to ensure the optimal utilisation of cash.
- 3.1.2.3 Implementing a formal strategy for the management of liquidity risk while recognising the cost implications thereof.
- 3.1.2.4 Performing daily and long term cash flows analysis regularly to avoid severe and unforeseen cash outflows.
- 3.1.2.5 Determining a minimum liquidity buffer by Treasury and approved by CoE that shall be used as a source of liquidity to meet the aggregate net cash outflows for CoE for the ensuing [55 days] in the event of COE not being able to generate sufficient working capital surpluses.
- 3.1.2.6 Such proportion of an investment portfolio as may be determined by Treasury shall consist of liquid instruments that may be used to settle any unforeseen fluctuations in the cash flows.
- 3.1.2.7 The funding portfolio should consist of money market instruments and working capital surpluses. The quality of the funding portfolio may be enhanced by using, amongst others, the instruments as referred to in the Investment Regulations. Working capital is required to ensure cash availability to fulfil operating requirements of the Metro.
- 3.1.2.8 In line with National Treasury recommendations, the difference between current creditors and current debtors must be retained in cash as working capital.
 - Depreciation: The depreciation cost item (net after offset depreciation) is to be appropriated towards the following cash expenditures:
 - Redemption of external loans
 - Investments made to provide for the redemption of external loans
 - Capital funded from revenue
 - Any amounts left from the depreciation cost item (net after offset depreciation) after the above has been provided for, must be retained in cash to fund future asset renewals. This is to be done via the Capital Replacement Reserve.

The following instruments may also be used:

- *bridging finance,*
- *re-allocation of funds between portfolios and*
- *establishing short term facilities with approved counterparties.*

3.1.3 CASH MANAGEMENT POLICY

The improved accuracy of forecasts brings transparency, lower cost of funding and provides a realistic reporting framework. Entities, in conjunction with the Core departments are encouraged to document the Cashflow management guideline process to ensure continuity. Projections should be a true reflection of risks faced by the organization or department.

Bridging Finance Mechanisms

In assisting Treasury to identify and manage daily liquidity gaps, entities are required to submit:

1. The 3 months rolling daily cash projections adjusted on a weekly basis.
2. The cash flow projections will be benchmarked against the approved budgeted monthly targets.

To manage daily liquidity gaps the following facilities are utilized:

1. General banking facilities which incur the cost as agreed between COE and counterparty banks.
2. Short-term loans which incur the cost of *Jibar + up to **[250]** bps.
3. Commercial paper which incurs the cost of Jibar + up to **[60]** *bps (depends on investor appetite and market conditions).
4. Overdrafts which incur the cost as agreed between CoE and counterparty banks.

In the event where all available facilities are exhausted due to liquidity constraints, Treasury will seek the necessary approval to defer payments, hence accurate projections will assist in proactively managing and advising the organization on unfunded liquidity gaps.

* The **Johannesburg Interbank Agreed Rate (JIBAR)**: is the money market **rate**, used in South Africa. It is calculated as the average interest **rate** at which banks buy and sell money market instruments.

* Basis points (Bps): one hundredth of one percentage point (used chiefly in expressing differences of interest rates).

Long Term Cash flow (12 months)

The purpose of the long-term projections is to identify long-term cashflow risks such that appropriate mitigations are timely implemented.

In assisting monitoring and oversight committees, it is imperative that all entities put processes in place for recording and reconciling actuals against projections for submission to Treasury. The submission to Treasury should be to **[treasury@ekurhuleni.gov.za.]**

- The long term cash flow projections should be submitted at the beginning of each financial year or when requested by Treasury.

3 months Rolling Cash flow

- All entities (MOEs and Core) must submit daily 3 months rolling forecasts to
- Treasury via email to: **[treasury@ekurhuleni.gov.za.]**
- Daily 3 Month Rolling Cashflow projections should be submitted by 12h00 noon at the beginning of each week (Monday) or when requested by Treasury.
- No projections will be acceptable unless submitted as per the approved template.

Variance explanations

Upon request by Treasury, variance explanations pertaining to the 12 month's annual cashflows forecasts (Budget vs forecast vs. actual cash movements) must be provided per Treasury's requirements.

Sweeping of Bank Accounts

- All accounts should be swept to the Treasury bank account as per section 13 of the MFMA.
- All bank balances have to be positive at financial year end.

FUNDING POLICY

3.1.4 DEFINITION

The funding policy is aimed at ensuring that CoE procures sufficient and cost effective funding in order to achieve its capital expenditure objectives in an optimum manner. The funding policy shall be adhered to in the procurement of funding for CoE having due regard to the assets and liability maturity profile of CoE.

3.1.5 POLICIES

- 3.2.2.1 The funding plan shall be reviewed at least once a year and when the need arises.
- 3.2.2.2 New funding requirements determined by the business plans and reflected in the approved budgets shall be contained in the funding plan.
- 3.2.2.3 Funding sources may consist of:

| | |
|---------------------------|--|
| Capital Market Facilities | Municipal bonds and commercial paper Primary loans Secondary loans Term loans Bank short-term facilities |
| Money Market | Commercial paper Repurchase agreements (Repos) Negotiable certificates of deposits (NCDs) Deposits Promissory Notes |
| Specialized Finance | Asset Backed structured finance Project finance Public Private Partnership Structured finance Securitisation Export Credit Agencies |
| Bridging Finance | In terms of cash flow requirements |
| Government Funding | Grants |
| Revenue | Internal generated funds |

3.2.2.4 The authority to assume any financial liabilities, both on and off balance sheet, shall be vested with COE's Accounting Officer or an official to whom such authority has been delegated. All financial liabilities (on and off balance) shall be arranged, structured, sourced and managed by the Group Chief Financial Officer through the Treasury Directorate. No other COE's Department or MOE is allowed to source, arrange, structure or manage any financial liabilities with balance sheet implications.

3.2 INVESTMENT POLICY

All investments made by CoE or by an investment manager on behalf of CoE must be in accordance with the provisions of this investment policy of CoE and the Investment Regulations promulgated in terms thereof in *Government Gazette* No. 27431 dated 01 April 2005 ("Investment Regulations").

The investments of CoE funds must also be conducted in terms of the provisions of the MFMA. Section 13 of the MFMA deals with cash management and investments.

Section 13 (2) of the MFMA provides that " *A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1)*".

Section 13 (2) makes it mandatory for COE to have a cash management and investment policy in place whose objectives shall be to deal with cash management and investments. The investment of funds must be carried out and deposited with the authorized counterparty and COE has to ensure that the financial institution is financially sound.

To determine the financial soundness and creditworthiness of the investment managers with which CoE does business, a credit model of the counterparty concerned has to be crafted.

The duly authorized officials must ensure that they determine the soundness and viability of any counterparty before investing funds with the investment manager.

The duly authorized officials may, from time to time, request the counterparty concerned, to furnish CoE with its financial statements for the past three (3) financial years or any other relevant information.

Treasury staff must ensure that they are familiar with any secondary legislation relevant to CoE's investment of funds promulgated, from time to time, in terms of the MFMA.

3.2.1 CASH FLOW ESTIMATES

The duly authorised officials must determine, before money is invested and the term of investment is fixed, whether there will be surplus funds available during the term of the investment.

To be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

3.3.2 PROHIBITED ACTIVITIES

The duly authorised officials shall, under no circumstances, invest funds with an investment manager that is not licensed in terms of the *FIAS Act or any other relevant legislation.

The duly authorised officials shall only invest funds in the permitted investment types as set out in the Investment Regulations.

Investments shall not be undertaken for speculation purposes.

CoE may make an investment only if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

* The Financial Advisory and Intermediary Services Act (37 of 2002) affects the way in which a Financial services provider (FSP) conducts business and interacts with Consumers, and guides Consumers in their daily dealings with their chosen product provider.

3.3.3 APPROVED INVESTMENTS

CoE may invest funds only in any of the following investment types:

- (1) securities issued by the national government;
- (2) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- (3) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- (4) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 19984);
- (5) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- (6) banker's acceptance ("BA") certificates or negotiable certificates of deposit ("NCD") registered in terms of the Banks Act, 1990;
- (7) guaranteed endowment policies with the intention of establishing a sinking fund;
- (8) repurchase agreements with banks registered in terms of the Banks Act, 1990;
- (9) municipal bonds issued by a municipality; and
- (10) any other investment type as the Minister of Finance may identify by regulation in terms of section 86 of the MFMA, in consultation with Financial Services Board.

CoE may invest funds with any new institution. However, such new institution shall be in line with the requirements as prescribed by the MFMA and Regulations issued in terms thereof.

The repurchase agreements that may be entered into by CoE, must be aligned with and documented in the Global Master Repurchase Agreement ("GMRA") issued by the International Securities Master Association (ISMA).

3.3.4 CONTROL OVER INVESTMENTS

Treasury must keep and maintain an electronic investment register of all investments made. The investment register must contain at least the following information:-

- The name of the institution;
- The amount of capital invested;
- The date invested;
- The interest rate;
- The maturity date; and
- The name of Treasury staff member making the investment.

The investment register and accounting records must be reconciled on a monthly annual basis.

The investment register must be examined on a daily basis to identify investments falling due within the next few weeks.

The duly authorized officials must ensure that the invested funds are secure and, should there be any element of risk that such risk is evaluated and assessed realistically.

3.3.5 CREDIT REQUIREMENTS

CoE must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out below, to ensure that it places its investments with creditworthy institutions.

Investments by CoE or by an investment manager on behalf of CoE-

- 3.3.5.1 must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's affair;
- 3.3.5.2 may not be made for speculation but must be a genuine investment; and
- 3.3.5.3 must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of CoE and lastly to the probable income derived from the investment.
- 3.3.5.4 all investments must be carried out in accordance with the Investment Regulations as stipulated in the MFMA.

CoE must regularly monitor its investment portfolio and when appropriate, liquidate an investment that no longer has the minimum acceptable credit rating as specified in its investment policy.

Any investment manager or counterparty CoE invests money with must undergo a thorough credit process which aims to check authenticity of the counterparty's operations, their liquidity stance and any risk framework in place to ascertain that any counterparty risk is eliminated.

3.3.6 PAYMENT OF COMMISSION

No fee, commission or other reward may be paid to a councilor or official of CoE or to a spouse or close family member of such councilor or official in respect of any investment made or referred by CoE.

If an investee (being an institution with which an investment is placed or its agent), pays any fee, commission or other reward to an investment manager in respect of any investment made by CoE, both the investee and the investment manager must declare such payment to CoE Council by way of a certificate disclosing full details of the payment.

3.3.7 PERFORMANCE EVALUATION

CoE must constantly monitor the performance of funds with regard to the returns. The performance must be monitored on a regular basis and measured against international best practices and benchmarks.

The duly authorized officials must ensure that there is growth in the capital invested with the financial institution by CoE. Should there be any reduction or lack of growth, the Treasurer should be informed and advised accordingly and arrangements should be made to invest the funds with another institution that may produce positive results and increase the principal amount.

3.3.8 INVESTMENT MANAGERS

An investment manager is defined in the Investment Regulations as a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act No. 55 of 1989), and Stock Exchanges Control Act, 1985 (Act No. 1 of 1985), contracted by COE to-

3.3.8.1 advise it on investments;

3.3.8.2 manage investments on its behalf; or

3.3.8.3 advise it on investments and manage investments on its behalf.

Any investment manager, with which CoE invests its monies, must be authorised to carry on the business of investments and be in possession of a valid license issued in terms of FIAS.

3.3.9 PORTFOLIO DIVERSIFICATION

Upon identification of risks, CoE must take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care prescribed above, to diversify its investment portfolio across institutions, types of investment and investment maturities.

3.3.10 MISCELLANEOUS PROVISIONS

- 3.3.11.1 The responsibility and risk arising from any investment transaction rests with CoE.
- 3.3.11.2 All investments made by CoE must be in the name of CoE.
- 3.3.11.3 CoE may not borrow money for the purpose of investment.

3.3.11 EXISTING INVESTMENTS

Nothing in the Investment Regulations compels CoE to liquidate an investment which existed when the Investment Regulations took effect on 01 April 2005 merely because such investment did not comply with a provision of the Investment Regulations.

3.3.12 VALUATION OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are not traded in an active market (for example, trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by CoE should be the current bid offer price. The fair value of financial instruments that are not traded in an active market should be determined using valuation techniques.

CoE should use a variety of methods and assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments should be used for long-term financial assets. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

To determine the fair values of floating rate instruments, CoE should use market forward rates to estimate future interest and capital cashflows, and market implied discount rates to calculate their present values. To determine the fair values of fixed rate instruments, COE should market implied discount factors to calculate their present values.

3.3 INTEREST RATE RISK POLICY

3.3.1 DEFINITION

Interest rate risk is the risk that exists in an interest bearing asset, such as a (loan or bond) or (asset investment), due to the possibility of a change in the value or resulting from the fluctuation of interest rates. The interest rate risk management policy must identify and quantify interest rate risk and structure the assets, liabilities and interest rate hedges of CoE in order to reduce the impact of changes in interest rates on the profitability and net worth of CoE.

The interest rate risk is the risk that the value of CoE's asset to liability portfolio may be negatively affected by changes in interest rates. This policy provides guideline measures to assist in containing the negative impact of adverse interest rate movements on CoE's net income within the acceptable risk profile of CoE.

3.3.2 POLICIES

- 3.4.2.1 Interest rate risk shall be managed taking due cognisance of interest exposure and corresponding liquidity risk.
- 3.4.2.2 The decision whether to use fixed and/or floating interest rates shall be determined by the duly authorised official having regard to the sensitivity and term of the underlying assets and liabilities and nature of the interest rate environment.
- 3.4.2.3 Interest rate hedging instruments shall not be employed for speculative reasons and shall only be used as a financial risk management tool.
- 3.4.2.4 Interest rate hedging instruments must be taken out for the period that matches the underlying commitment or exposure provided that in the event of an early retirement of such underlying commitment or exposure, such interest rate hedging instruments shall be terminated accordingly.

3.4 CREDIT RISK POLICY

3.4.1 DEFINITION

Credit risk is the risk that CoE may incur when dealing with counterparties who may not be able to meet all or a portion of their commitments within a certain time period, including the risk of default.

3.4.2 POLICIES

- New counterparties and credit limits must be approved by ALCO (Asset and Liability Committee)/CFO.
- Transactions shall only be conducted with approved counterparties and within the approved limits.
- Credit limits may, at the discretion of the Treasurer, be set for individual legal entities and not on a group basis.
- Credit limits and the utilisation thereof are confidential.
- The criteria used to determine the credit limits shall not be revealed to any counterparty under any circumstances.
- Recognised credit rating agencies, where possible, must be utilised in the credit evaluation process.
- There shall be continuous and constant monitoring of the credit quality of counterparties. Credit limits must be formally reviewed at least annually.
- Compliance with credit limits shall be monitored at least daily and transactions exceeding these limits must be immediately reported to the Treasurer.
- Credit limits of counterparties must immediately be reassessed by Treasury if adverse information regarding the counterparties becomes available.
- The following documents may be used in dealing with credit risk:
 - ISDA Master Agreement, ISDA Schedules and Confirmations;
 - ISMA (Global Repurchase Master Agreements).

3.5 NEW INSTRUMENTS POLICY

3.5.1 DEFINITION

Due to the increasing range and complexity of financial instruments, it is imperative to establish a procedure for approval of new instruments before their incorporation and use by Treasury.

3.5.2 POLICIES

New instruments shall only be used after a thorough evaluation of the instrument's characteristics and potential risks, subject to the provisions of the Municipal Investment Regulations, 2005.

An approval for an evaluation of a new instrument must be sought from Chief Financial Officer before initiation and the Treasurer must approve the use of new instruments to manage risk.

The evaluation process of new instruments must incorporate at least the following steps:

| | |
|-------------------------------|---|
| Instrument description | Describe in general terms the application that the instrument has, as well as the embedded components if the instrument comprises a combination of other instruments. |
| Risk | Describe all risk characteristics that allow the instrument to be utilised in Treasury's risk management activities. Counterparty and liquidity risk must be specifically highlighted. |
| Cash flow | Many instruments have similar risk characteristics, but different cash flows. Cash flow is often the determining factor between competing instruments and must be analysed as to timing, amount and predictability. |
| Accounting | The accounting treatment must be in compliance with COE's accounting policies. |
| Operational | An instrument specification must be prepared. This must be prepared and coordinated with Treasury Information Systems. The confirmation, settlement and custodian policies and procedures must be documented and agreed to by Treasury. |
| Control | Dealer and counterparty limits must be established. The format and content of exception reports, as well as the percentage-weighting factor for risk must be agreed upon by Treasury. |
| Legal | Draft documentation should be submitted to COE's Legal and Compliance Department for comment on the validity of entering into a transaction, as well as the legal consequences. |
| Taxation | Tax implications must be taken into account. |
| Testing | Where an instrument requires changes to systems or procedures, it must be tested before implementation. |
| Other | Any other relevant factors must be considered. |

- The evaluation report, together with a covering checklist, must be submitted to ALCO/CFO for approval.
- When a new instrument has been approved, a copy of the approval must be circulated to all Treasury employees.

3.6 FOREIGN EXCHANGE RISK POLICY

3.6.1 DEFINITION

Foreign exchange risk is the risk that adverse changes in exchange rates may cause a reduction in the income of COE.

3.6.2 POLICIES

Subject to the third paragraph below, CoE is not permitted to raise borrowings denominated in a foreign currency. However, certain operating expenses of COE may be paid for in a foreign currency.

Treasury must confine its activities to the transactions denominated in ZAR.

Approval to enter into foreign exchange transaction for the acquisition of goods and services must first be obtained from National Treasury and where applicable an application for Exchange Control Approval has to be sought from the South African Reserve Bank ("SARB").

The selection criteria for hedging foreign exchange transactions must be based on the mechanism which provides the best overall risk reduction; and is the most cost effective.

- Foreign exchange hedging instruments must be taken out for the period that matches the underlying commitment's exposure.
- Foreign exchange exposures must only be hedged once firm and determined commitments have been established.
- Foreign exchange commitments must be reported for consolidation and action in the annual financial statements, except foreign currency requirements for travel purposes.
- Foreign exchange transactions must comply with all prescribed with legislation, including exchange control approvals where necessary.

TREASURY BACK OFFICE POLICY

3.6.3 DEFINITION

The Treasury back office acts as general support to Treasury.

3.6.4 POLICIES

Confirmations

- Confirmations of deals must be done on the deal date.
- Where there is a confirmation dispute this must be queried immediately and dealt with appropriately by the duly authorised officials.
- Changes to deals or on deal slips, which have been entered into the system, shall not be permitted unless such change has been confirmed by the duly authorised officials, after thorough background analysis is undertaken.
- Confirmation discrepancies must be resolved before settlement can take place.
- Confirmations must be done on CoE letterhead and signed by the duly authorised officials.
- Confirmations from counterparts must be on the relevant counterparty letterhead and the signatures must be verified by the duly authorised officials.

Settlements

- Treasury must comply with the settlement procedures prescribed by CoE's appointed settlement agent and the Johannesburg Stock Exchange ("JSE").
- For capital market settlements, there must be an offsetting of the capital amount between the transacting parties.
- For derivatives settlements the interest must be settled and not the notional amount.
- All transactions must be recorded on the deal date.
- Settlement must take place on the settlement date.
- A maturity diary must be maintained in order to ensure that obligations are paid timeously.
- All payments must be authorised by the duly authorised officials.
- All settlements must be accompanied by a signed deal ticket and confirmation. All values being settled must match the confirmation and deal slip. Payments cannot be made unless all the proper documentation is in order.
- Payments must not be unreasonably withheld from any counterparty unless such withholding is authorised by the Treasurer as a result of a dispute or discrepancy.
- Officials who are authorized to use the electronic funds transfer system must approve all electronic transfers.

Accounting

- All transactions must be recorded accurately and timeously in the relevant accounting system.
- All journal entries must be checked and authorized by the duly authorised official prior to processing.
- All Treasury transactions must be in line with CoE's approved accounting policies.
- All reconciliation's between bank statements and the cashbook must be done and maintained on a daily basis.
- Reconciliations must be checked and signed off by the duly authorised officials.
- Monthly reporting must be done periodically as required by any regulatory or oversight body.

Sweeping Accounts

- All CoE's different bank accounts must be swept into one Treasury account unless the bank account was purposely set-up as ring-fenced account for specific purpose. Treasury must be aware of all sweeping and non-sweeping bank accounts.
- Interest must be accrued on a monthly basis. The sweeping accounts represent revenue income from the Customer care Centres (CCC).

Government Grants

- These are monies received from National and Provincial government per terms and conditions.

Safe Custody

- Treasury shall be accountable for the safe keeping of all negotiable instruments.
- Release of negotiable instruments shall only be released against a valid transaction signed by the duly authorised signatories.

3.7 DEALING POLICY**3.7.1 DEFINITION**

Dealing risk is the risk of sustaining opportunity losses arising from:

- Negligence by dealers
- Equipment failure
- Inability to transact timeously
- Inappropriate dealing activities
- Fraudulent dealing activities
- Incorrect and delayed exposure reporting
- Ineffective communication

3.7.2 POLICIES

- The trading or dealing team has exclusive responsibility to conduct all capital, money, foreign exchange and derivative market activities.
- Deals must be done at CoE's dealing room or offices in Benoni or at alternate site as identified by relevant authorities in line with approved processes or policies.
- Detailed business continuity or disaster recovery plans shall be in place and tested in the event that there is a failure or disaster that impairs the ability of the dealer to operate.
- Deals done and positions taken shall be in authorised instruments and within authorised limits only.
- Information pertaining to CoE's trading activities is highly confidential and is not to be disclosed under any circumstances.
- Private account trading is prohibited in any markets in which CoE transacts.
- All regulatory restrictions must be complied with.
- All deals shall be immediately recorded on a deal sheet and immediately captured into the appropriate system.
- Dealing activities shall be undertaken within clearly predefined strategies and tactics.
- CoE's daily cash requirement is to be squared-off each day by 14:30.
- All positions must be reconciled before close of business each day.
- All profits and losses calculated must include the cost of financing cash shortfalls and the income earned on surplus cash.
- Cash flows must be reconciled with the money market dealer on a daily basis, who in turn, shall reconcile with the cash management section.
- All variances and projections must be explained to the Treasurer and [ALCO/CFO].
- The Treasurer has sole responsibility to resolve disputes in terms of transactions entered into with counterparties where the counterparty's interpretation of the transaction is in conflict with CoE's interpretation and which result in CoE being adversely affected should the counterparty's interpretation be accepted. Should such a dispute arise, the dealer is to notify the Chief Investment Specialist immediately, who in turn must notify the Treasurer. Under no circumstances may any Treasury staff member resolve the dispute with the counterparty concerned except when authority is granted by the Treasurer.

INFORMATION RISK MANAGEMENT POLICY

3.7.3 DEFINITION

This is the risk that CoE may incur a loss which may have a detrimental effect on CoE and/or its operations due to inadequate information management and appropriate architecture support within Treasury.

3.7.4 POLICIES

Treasury must adhere to the processes and/or policies of the Group Chief Information Office (termed OCIO) or such Information Technology department as approved by council.

3.8 ASSET-BACKED FINANCE POLICY

3.8.1 DEFINITION

Asset-backed financing may be structured on the basis of a lease, instalment sale transactions, etc. There may be some flexibility in structuring the loan profile to suit specific needs. For example the loan repayments can be structured to suit the cash flow requirements of CoE. This may be done by only making interest payments over the term of the financing and a bullet payment at the end of the lease term. There could also be a mixture of debt and equity in the structure depending on the type of asset being financed.

An asset may be used as security for loans and therefore if it falls out of favour or becomes outdated, that could create a problem for the financier (residual risk). The other issues that could pose risk with respect to asset-backed financing include:

- Change in the legal or regulatory environment/policies;
- The asset is damaged or destroyed;
- Market shocks and disruptions; and
- The entity fails i.e. both from the borrower's and the lender's point of view.

Terminating the transaction prematurely because of these issues can be costly.

3.8.2 POLICIES

The following must be considered:

- Asset based finance;
- Project finance; and
- Sale and leaseback of assets.

Municipal owned entities must be involved in project planning and project specific financing. In the event where Treasury needs to assess the viability of engaging in a Public Private Partnerships, municipal owned entities must furnish Treasury with all the information relating to their projects.

A thorough understanding of the project and determination of the optimum financing structure must be established, that is, issues such as gearing, etc. shall be taken into account whilst the cost of financing, shall be used as a benchmark for the financing proposals.

Once the project has been approved the request for financing proposals must be sent out to the market. Financial proposals received must be evaluated amongst other issues, on a cost and risk vs reward basis.

Implementation of the preferred financing strategy must ensure that:

- Internally generated funds (cash flow from operations) must be used to repay/redeem existing loans;
- Financing of any asset must match the life of the asset.

3.12 RING FENCING POLICY

DEFINITION

In the context of the City of Ekurhuleni (CoE), ring fencing refers to the identification, monitoring and placing of specific revenue streams for particular purpose. Revenue streams, in this instance, refer to revenue generated from municipal services rendered and grant funding.

By definition ring fencing is a process of assigning conditional grants funding and internally generated funds to specific purposes, so as to restrict its use. Treasury runs a single bank account, where all conditional grants received will be deposited into, and disbursements for the specified projects or purpose are made from the account to meet the specific expenditure.

Two spheres of ring fencing revenue emanate:

- Ring fencing revenue for redeeming debt within a financial year and
- Ring fencing conditional grants for transparency purposes.

This policy sets out a framework to allow Treasury to efficiently identify incoming and outgoing funds for proper liquidity monitoring on ring fenced accounts.

RING FENCING OF REVENUE FOR DEBT REDEMPTIONS

As part of its operations for providing liquidity, City of Ekurhuleni's Treasury borrows short-term funds as a bridge against grants which tend to be received later in the financial year. Any borrowing is embarked on against expected future grant revenue stream. In this regard, each short-term borrowed liability gets matched against a specific grant to be received.

Because grants are paid in the City's operating accounts, care is taken to identify which grant was "pre-drawn" against expenditure.

Rules and Mechanics

Setting up of accounts

Upon recognition of high liability concentration risk from the constructed cash flow ladder, Treasury Risk together with Front office can set up a ring fenced account to redeem liabilities incurred on the basis of expected operating or capital grant inflows to be received in the future. This will be done in conjunction with the liability ladder as provided by Risk desk. Back office has to be notified on all accounts needed to be set up.

Deposits within accounts

Contributions into ring fenced accounts may be made in line with the Cash Flow Ladder which identifies underlying liability constraints. Surplus monies from operational cash flow will be used for deposits. Safe to state that preference for deposits will be given to those ring fenced accounts matched to liabilities with shorter maturing durations.

Withdrawals from ring fenced accounts

The front office must notify risk office on any withdrawals it intends carrying out for operational liquidity provision. Each notice will be accompanied by a 'Withdrawal Notification' of which the template will be provided. A withdrawal will not be effected without a signed Withdrawal Notification by:

- An authorized signatory from Treasury Risk unit and/or
- The Treasurer
- At times the Treasurer may not be available to sign the notice. In such instances, an authorized signatory from the back office operations may sign the notice.

Note that there might be limitations on withdrawals; this phenomenon depends on the tenure of underlying liability maturities.

Any withdrawal notice should stipulate:

- *withdrawal amount*
- *the name of the ring fenced account in question*
- *the initial balance intended for the ring fenced account*
- *the remainder balance after withdrawal*

A) RING FENCING OF CONDITIONAL GRANTS

Departments & Entities, Merchant Payments and Treasury should be in a position to monitor and reconcile the grants as follows:

- Treasury normally receives the grants via the primary account and reconcile against the grants schedule.
- Grants will be ring-fenced at book level whereby all the monies goes through the pool of investment accounts.
- In terms of ring fencing of funds, Treasury should keep an active record of the amount of the grant received belonging to the Department/Entity.
- City's Departments should reconcile and keep track of all their payments related to the grant, and the amount at any given point in time should not exceed the grants received.
- A monthly reconciliation supported by Grant Template will be carried out. The template will depict the amount of grants received and drawdown relating to specific project expenditure.

It is the responsibility of departmental finance heads to ensure that the values of the AUC (Assets under Construction) and/or Deferred Revenue are updated accordingly and the split between grant and non-grant funding is isolated based on their capital budget.

Upon request from Treasury, departments should submit a monthly reconciliation showing the monthly and year to date spending of the grant, the outstanding unspent cash amount of the grant, the AUC and Deferred Revenue based on the latest payments made.

3.13 PROCESS FLOW AUDIT POLICY

3.13.1 DEFINITION

The process flow audit is one of the mechanisms utilised to check the effectiveness of controls that have been put in place as well as ensuring that operational risk is minimised. The process flow audit helps to identify areas for improvement versus benchmark and best practice. The design of the operational controls affects the efficiency and security of the Treasury Department.

3.13.2 POLICIES

Treasury Risk is responsible for conducting a process flow audit for the Front, Middle and Back Office.

- The effectiveness of treasury internal control environment should be confirmed annually on the basis of the principles list below.
- Assess both the design and operating effectiveness of selected internal controls related to significant accounts and relevant assertions, in the context of material misstatement risks;
- Understand the flow of transactions, including IT aspects, sufficient enough to identify points at which a misstatement could arise;

- Evaluate controls over the period-end financial reporting process;
- Scale the assessment based on the size and complexity of the company;
- Conclude on the adequacy of internal control.

3.14 INTEREST RATE EXCHANGE POLICY

3.14.1 Interest Rate Swap Objectives

Interest rate swaps, in the context of CoE's financial operations:

- Reduce or manage exposure to changes in interest rates on a particular financial transaction or in the context of the management of interest rate risk derived from CoE's overall asset/liability balance consistent with prudent debt and risk guidelines.
- May result in a lower net cost of borrowing with respect to CoE's debt or achieve a higher net rate of return on investments made in connection with, or incidental to the issuance, or carrying of CoE's debt obligations or other City investments.
- Manage variable interest rate exposure consistent with prudent debt practices.
- Manage exposure to changing market conditions in advance of anticipated bond issues (through the use of anticipatory hedging instruments).
- Achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets.

3.14.2 Permitted Instruments

CoE may utilize the following financial products on a current or forward basis, after identifying the objectives to be realized and assessing the attendant risks.

- Interest rate swaps, including (i) pay fixed/receive floating swaps (fixed rate swaps), (ii) receive floating/pay fixed swaps (floating rate swaps) and (iii) pay floating/receive floating swaps (basis swaps). Swaps may include option features, such as for the extension, cancellation, or index conversion of the swap.
- Interest rate caps, floors, and collars.
- Stand-alone options to enter into swaps (swaptions) on a particular date, series of dates, or during a particular period of time in the future.

3.14.3 Conditions for the Use of Interest Rate Swaps

Each Agreement and Transaction will be entered into not for purpose of speculation, but solely in connection with the financing activities of CoE.

- A. General Usage** Interest rate swaps may be used to lock-in a fixed rate or, alternatively, to create additional variable rate exposure. Interest rate swaps may be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, or for asset/liability matching purposes.
- B. Call Option Value Considerations** When considering the relative advantage of a fixed rate swap to fixed rate bonds, the value of the call option that would typically be purchased for the fixed rate bonds shall be compared to the incremental present value of the savings from using a swap. This shall be done to ensure the benefit from use of the swap will provide sufficient compensation to offset the expected value of any foregone future refunding savings.

3.14.7 Hedge Accounting Policy

DEFINITION

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

1. At the inception of the hedge there is a formal designation and documentation of the hedging relationship and the entity's risk management objectives and strategies for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in the offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
2. The hedge is expected to be highly effective in achieving the offsetting changes to the fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for the particular hedging relationship.
3. For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
4. The effectiveness of the hedge can be reliably measured, i.e. the fair value or the cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
5. The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

It is therefore management's responsibility to ensure that the above requirements are met in order for the entity to apply hedge accounting for SWAP transactions.

CHAPTER 4

4. CODE OF CONDUCT

All personnel within COE's Treasury department shall abide by the City of Ekurhuleni's Code of Conduct. A copy thereof could be attained from the relevant Human Resources Office.

CHAPTER 5

5 LEGISLATIVE AND REGULATORY FRAMEWORK

The following legislation guide Treasury:

5.1.1 Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (“MFMA”)

In terms of section 80 of the MFMA, every municipality must have a budget and treasury office.

Section 81 of the MFMA vests the Chief Financial Officer with the powers over the budget and treasury office.

The majority of the provisions of the MFMA came into effect on 1 July 2004. On 1 July 2005, section 179(1) of the MFMA came into operation and repealed the provisions of the Local Government Transition Act, 1993 (“LGTA”) referred to below.

Section 8 of the MFMA makes provision for the designation of the primary bank account. Treasury manages the primary account. All the sweeping arrangements with the MOEs are conducted via this account. COE’s primary account resides with the City’s commercial banker. The commercial banker is appointed for a period of five (5) years. The appointment of the commercial banker is made through a competitive bidding process as set out in the MFMA: Supply Chain Management Regulations.

In terms of sections 38, 39 and 40 of the MFMA, the National Treasury may stop the transfer of funds due to a municipality as:

- (i) an allocation; or
- (ii) a share of the local government’s equitable share of budgeted funding, but only if the municipality commits a serious or persistent breach of the measures established in terms section 214(c) or 216(1) of the Constitution of the Republic of South Africa, 1996.

In terms of section 45 of the MFMA, the City can incur short-term debt. Treasury has to oversee this process and incur debt on behalf of CoE. The relevant resolution of the City Council has to be obtained before Treasury can bind CoE to agreements.

In terms of section 46 of the MFMA, CoE may incur long-term debt for the following:

- 5.1.1.1 re-financing existing long-term debt; and
- 5.1.1.2 capital expenditure.

Section 46(3) of the MFMA provides that the accounting officer of the City must, at least 21 days prior to the meeting of Council at which approval for the debt is to be considered, make public an information statement setting out the particulars of the proposed debt. This subsection of the MFMA has to be read in conjunction with section 21A of the Systems Act. The information statement has to be broadcast on the radio and on the newspapers

circulating within the jurisdiction of the City. Treasury has to ensure that this process takes place.

With regard to long-term debt, it is instructive to note that COE may issue bonds. When COE issues bonds, it has to comply with other relevant of legislation.

The investment of CoE's funds has to be conducted in terms of the MFMA. Section 13 of the MFMA deals with cash management and investment. Section 13(2) provides that "*A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1)*".

Section 13(2) makes it mandatory for a municipality to have a policy in place whose objective shall be to deal with cash management and investment.

The investment of funds must be carried out in terms of the provisions of the Policy and be deposited with an authorised and approved financial institutions and CoE has to ensure that the financial institution is financially sound. To determine the financial soundness and viability of the financial institution with which CoE carries out its business, a credit rating of the institution concerned has to be obtained. The long-term investments must be made with an institution with a minimum of BBB rating. Short-term investment, on the other hand, should be made with an institution with a minimum of B rating.

The Municipal Investment Regulations are attached hereto as Annexure "A".

5.2 Local Government Transition Act, 1993 (the LTGA)

The LGTA was promulgated to pave the way for local government legislation that has been passed since 1998 and for legislation that may still be promulgated in the future. The Local Government: Municipal Structures Act, 1998 ("the Structures Act") and the Local Government: Municipal Systems Act ("the Systems Act") have to a large extent replaced the content of the LGTA. Section 10G of the LGTA, which regulates municipal finance, is however still in force by virtue of section 93(4) (a) of the Structures Act read with section 179 of the MFMA. Section 10G of the LGTA remained in effect until 1 July 2005, when section 179(1) of the MFMA came into operation and repealed provisions of the LGTA.

Section 10G(8)(a)(i) of the LGTA provides that a municipality may obtain money and raise loans for capital expenditure budgeted for by the Council, including the payment of fees and expenses associated with the raising of such funds and any resolution tabled to raise funds shall require a majority of the members of the Council, provided that the Minister of Finance may by notice in the Government Gazette determine reasonable conditions and criteria with regard to the raising of loans by municipalities and such conditions and criteria may include the limiting or disallowance of such loans.

Section 10G(c) provides that any money borrowed by a municipality in accordance with that subsection and the interest thereon shall be the financial obligation of the municipality concerned and shall be chargeable to and payable from the revenues and assets of that municipality.

In terms of conditions and criteria laid down by the Minister of Finance with regard to the raising of loans by municipalities in terms of section 10G(8)(a)(i) of the LGTA, a municipality may only raise loans for the purpose of financing capital expenditure which has been budgeted for and approved by Council in terms of the Resolution by it, specifying in respect

of such loan, the specific items mentioned in paragraphs 2(1)(a) to (g) published under Government Notice R412 in Government Gazette 18764 of 27 March 1998 in terms of LGTA, of such conditions and criteria.

5.3 Exchange Control Regulations

The consent of National Treasury has to be obtained in respect of the issue of tranches of notes as is contemplated in Exchange Control Regulation 16 of the Exchange Control Regulations, 1961.

The issue of any bearer notes, the acquisition and the disposal thereof are subject to the necessary exemptions having been obtained from National Treasury as contemplated in Regulation 15 of the Exchange Control Regulations. Treasury has to ensure that these Regulations are complied with.

5.4 Securities Services Act, 2004

The fixed income debt (bonds) issued by COE has to be listed with the authorised financial exchange, that is, the Bond Exchange of South Africa ("BESA"). BESA is regulated in terms of the Securities Services Act. Thus, it is incumbent upon Treasury to comply with this Act, and to ensure that other regulatory requirements stipulated in the Act are complied with.

5.5 Financial Intelligence Centre Act, 2001

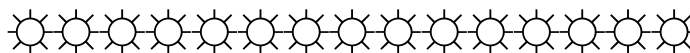
The thrust of this Act is to combat money laundering and organized crime. This Act has to be read in conjunction with the Prevention of Organised Crime Act.

It is incumbent upon Treasury in particular to furnish the financial institutions with the founding documents of COE, list of authorised signatories and the relevant details of the authorised signatories when requested thereto.

5.6 Financial Advisory and Intermediary Services Act, 2002

The financial institutions with which COE and particularly Treasury has dealings, have to comply with this Act. It behoves Treasury to ensure that the relevant licences stipulated in the Act are complied with and forwarded to COE by the relevant financial institutions.

A copy of this Treasury Policy may be obtained from The Divisional Head of Treasury, City of Ekurhuleni Metropolitan Municipality, 4th Floor Sanburn Building, 68 Woburn Avenue, BENONI, 1501, Tel. No. (011) 999 6010.



IDP and BUDGET

2018/19 - 2020/21



Annexure D21

ALLOCATION FOR GRANTS-IN-AID

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POLICY FOR THE ALLOCATION OF GRANTS-IN-AID

1. INTRODUCTION

Section 67 transfers or Grants is the allocation of funds from the Municipality's approved operating budget to organisations or bodies outside the sphere of government. These allocations are gratuitous transfers by the Municipality to the Grantee organisation and are not payments made in compliance with any commercial or other business transaction or to fund specific delivery agreements.

The projects, funded or part funded by these Grants can be as modest as community soup kitchens, food gardens, feeding schemes and early childhood development centers, or could involve substantial allocations aimed at inter alia promoting local tourism, destination marketing, creating job opportunities, economic development and sporting events.

Grants-in-Aid should not duplicate operations already provided for in Council or within the jurisdiction of Council.

2. DEFINITION OF CONCEPTS

In the Policy, unless the context otherwise indicates, the following meaning to be given to the words / terms:

"The Act" refers to the Local Government: Municipal Finance Management Act, 56 of 2003 (MFMA)

"Council" is the City of Ekurhuleni Metropolitan Municipality.

"CoE" refers to the City of Ekurhuleni

"Grant-in-Aid" means a discretionary financial assistance or grant or allocation, as referred to in Section 17(3)(j)(iv) of the MFMA, made by the Municipality to any organisation or body referred to in Section 67(1) and to be utilised to assist the municipality in fulfilling the Constitutional mandates including social development and arts and culture as set out therein.

"Early Childhood Development ("ECD") Facility" means any place, building or premises, including a private residence, maintained or used partly or exclusively, for the reception, protection and temporary or partial care of more than six children that shall be registered, managed and maintained in terms of the Children's Amendment Act, 41 of 2007.

"Local Institution" refers to an institution based and/or rendering services within the Ekurhuleni Metropolitan Area of jurisdiction

"Memorandum of agreement (MOA)" means the agreement entered into between the municipality and any organisation or body which receives a Grant-in-Aid in terms of this Policy.

"NGO" means a **non-governmental organisation (NGO)** means a non-governmental organisation (NGO) that is a legally constituted non-profit organisation that operates independently from any form of government.

PREAMBLE

WHEREAS section 67 of the Local Government: Municipal Finance Management Act, 2003 (MFMA, Act 56 / 2003) requires a municipality to ensure that certain criteria and conditions are met before funds are transferred to an organisation outside any sphere of government, other than in compliance with a commercial transaction; and

WHEREAS a policy would give effect and provide guidelines as to which categories of organisations could apply to become beneficiaries; and

NOW THEREFORE the City of Ekurhuleni adopts the Section 67 Funds Transfer Policy for the allocation of Grants-in-Aid as set out in this document.

3. PURPOSE AND OBJECTIVES

- 3.1 This Policy aims to provide a framework to regulate the allocation of Grants-in-aid to non-governmental organisations [NGOs], community-based organisations [CBOs] and non-profit organisations [NPOs] and bodies that are used by government as an agency to serve the poor, marginalised or otherwise vulnerable as envisaged by sections 12 and 67 of the Act. The IDP represents the Ekurhuleni Community's needs and **MUST** be the guiding factor in developing these partnerships;
- 3.2 It complement the goals, objectives, programmes and actions of Council's IDP in order to create a sustainable, credible and caring town by empowering and building communities and enhancing growth and sharing through partnerships;
- 3.1 It improves the opportunity for Council to elicit the support of external organisations to deliver on those services to communities which fall within the Council's area of responsibility in a way which allows the town to create an enabling environment for community development;
- 3.4 The Policy provides the opportunity for developing methods of joint funding strategies with outside agencies such as matching funding or sponsorship partnerships to meet the objectives of a developmental local government;
- 3.5 A key objective of the scheme is to create sustainable partnerships between the municipality and deserving and qualifying institutions / organisations / associations / bodies to achieve the objectives of the municipality's Business Plan based on pre-determined priorities and specific focus areas of a financial year, outlined in the IDP. The municipality ensures this through funding sustainable projects for sound management of the municipality's financial affairs and specifically taking reasonable steps to ensure that the municipality maintains an effective system of expenditure control including procedures for the approval, authorization, withdrawal, and payment of funds.

4. LEGAL FRAMEWORK

The power of the Municipality to allocate Grants-in-Aid is regulated in terms of *section 156* of the *Constitution*, read with *section 8* of the *Local Government: Municipal Systems Act, 32/2000 (MSA)*. These provisions limit the power to make Grants-in-Aid in circumstances where it is reasonable and necessary for or incidental to the functions and exercise by the municipality of its powers.

The powerS and functions of municipalities are set out in ***section 156 of the Constitution***,

read with **part B of Schedules 4 and 5 to the Constitution**. The Framework that regulates the Grants-in-aid scheme is provided for in the following Sections of **the Act**:

Section 15 - a municipality may incur expenditure only –

- (a) in terms of an approved budget; and
- (b) within the limits of the amounts appropriated for the different votes in an approved budget.

Section 17(3) - when an annual budget is tabled in terms of **Section 16(2)**, it must be accompanied by the following documents:

- (a) Particulars of any proposed allocations or Grants by the municipality to-
- (b) any organizations or bodies referred to in **section 67 (1)**.

Section 65 requires sound and sustainable management of financial affairs of the municipality and specifically requires of the Accounting Officer of the municipality to take reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control including procedures for the approval, authorization, withdrawal, and payment of funds.

Section 67 (1) - before transferring funds of the municipality to an organization or body outside any sphere of government otherwise than in compliance with a commercial or other business transaction, the Accounting Officer must be satisfied that the organization or body:

- (a) has the capacity and has agreed –
 - (i) to comply with any agreement with the municipality;
 - (ii) for the period of the agreement to comply with all reporting financial management and auditing requirements as may be stipulated in the agreement;
 - (iii) to report at least monthly to the Accounting Officer on actual expenditure against such transfer; and
 - (iv) to submit its audited financial statements for its financial year to the Accounting Officer promptly.

Section 67 (4), subsection (1) (a) does not apply to an organization or body serving the poor or used by government as an agency to serve the poor, provided –

- (a) that the transfer does not exceed a prescribed limit (*determined by the City of Ekurhuleni to be R100 000 (One hundred Thousand Rand)*); and
- (b) that the Accounting Officer –
 - (i) takes all reasonable steps to ensure that the targeted beneficiaries receive the benefit of the transferred funds, and
 - (ii) certifies to the Auditor-General that compliance by that organization or body with **subsection (1)(a)** is uneconomical or unreasonable.

5. CATEGORIES OF ORGANISATIONS / INSTITUTION ELIGIBLE FOR GRANT-IN-AID

The following categories currently apply but cognisance should be taken that these categories are not exhaustive and may be amended from time to time. Other than the general guidelines and conditions set out above, categories now indicated may require specific criteria applicable to its projects / programmes:

5.1 SPORTS, RECREATION, ARTS & CULTURE (SRAC) DEPARTMENT

GRANTS-IN-AID FOCUS AREAS AND SELECTION CRITERIA:

| Focus Area | Priority areas for financial assistance |
|---|--|
| Arts, Culture and Heritage | Heritage management and preservations |
| | Film Development mass based |
| | Craft Development mass based |
| | Art development mass based |
| | Oral history projects |
| | Music Development mass based |
| | Visual art projects mass based |
| | Creative scriptwriters, actors, singers, choreographers, composers, designer's |
| | Individuals; Dance/Choreography, Music, Theatre/Drama, Multi-discipline and Visual Arts. |
| Library and Information Services | Reading Awareness programmes |
| | Literary development and promotion |
| | Digital Information literacy |
| | Writing and Publishing |
| | Community groups/ reading and book clubs |
| Sport and Recreation | Programmes promoting indigenous games |
| | Club Development |
| | Disability Sport |
| | Programmes promoting healthy lifestyle |
| Cross Cutting projects addressing the above focus areas of the department | Capacity Building and training |
| | Early Childhood Development programmes promoting sport, recreation, arts development and promotion of reading |
| | Programmes targeting women empowerment |
| | Programmes targeting senior citizens |
| | Social Cohesion |
| | Youth programmes |
| | Local artist and athletes' participation in national/International events, These will be considered on a case by case basis. |

5.2 HEALTH AND SOCIAL DEVELOPMENT DEPARTMENT

GRANTS-IN-AID FOCUS AREAS AND SELECTION CRITERIA:

| Number | Focal area |
|--------|--|
| 1 | Cooperative (emerging Cooperatives) |
| 2 | Early Childhood Development |
| 3 | Capacity Building and skills development |
| 4 | Older Person's programmes |
| 5 | Disability programmes |
| 6 | Women's Programmes |
| 7 | Youth Development |
| 8 | Children programmes |
| 9 | Drugs and Substance Abuse |
| 10 | Poverty Alleviation (Income Generating) |
| 11 | Health and Health promotion programmes with exception of HIV and AIDS programmes |
| 12 | Men Development Programmes |

The Health and Social Development Department strategy nexus is based on five strategic pillars that guide and influence the Grant-in-Aid implementation and policy outlook. The area of focus are as follows:

Client Centre Approach The service to be funded should be aimed at addressing specific client needs and challenges and each client is unique and special as such. The client should be treated according to the needs that are presented. The services should not focus on what this institution aspired to achieve but on what clients' needs are and the maximum impact that the service would have on the client and to client support system.

Information, Education and Communication The second pillar focuses on empowering the individual, groups and communities. The pillar looks at community education and prevention of ... of problems. It focuses on information, education and communication of social ills process to manager. The social ills and interventions that individuals, groups communication to access. It looks at the capacity building and human development, community education for empowerment, self-reliance, ownership, self-initiative and it emphasize development of more social networks and advice centers.

Advocacy The third pillar looks at advocacy, this focal area is right based approach that emphasizes social justice, a minimum standard of living, equitable access and equal opportunities to services and benefits. A commitment to meeting the needs of all residents of the City with specific reference and emphasis on the needs of the most disadvantage. The pillar articulate the realization of Economic, Social and Culture rights, focusing, including the right to social assistance, anti-poverty strategies and to the development trajectory.

It looks at harmonizing Social and Economic activities to advance pro-poor approaches that promotes social investments in human capital development and building social capital through advocacy programmes (organizing awareness campaigns, sensitizing, advocating, building support structures and networks protecting rights and mobilizing communities)

Social Policy The fourth pillar looks at development of cohesive social policy within a developmental local government. This pillar harness the effect of various intervention through all pillars. It focuses on knowledge, which include research within the Health and Social Development field to monitor and evaluate programmes presented, development of new knowledge for new service as new social ill emerge allowing departmental intervention's relevance.

The Social Policy pillars talks to relevance and appropriateness of interventions and policy outlook. It talks to the use of current numbers to planning and development. This pillars emphasizes the development of appropriate tools to capturing, recording, interpretation and correct data and extrapolation of data to the general residents and mitigation of interventions against the presenting problem or social ills.

Poverty Reduction and Sustainable Development The pillars focuses on re-mobilizing to achieve social empowerment and upliftment. The pillars strive towards ensuring that the residents of the city who were previously marginalized and or disadvantaged from the economy and had food insecurity are empowered and have access to economic opportunities.

It includes building of assets and infrastructure within communities, groups and individuals. This entails creating a conducive environment for the development of income generating projects, small scale farming projects, food generation that is household based (food garden) initiation, development and allocation of seed funding for cooperatives:

- Job Creation: (temporary, internship etc.)
- Food Security.

52% of the Grant-In-Aid will be focused on seed funding for cooperatives, Capacity Building and Social Development, training of identified beneficiaries within Indigent register. This will include accredited SETA Training Programmes:

- Catering and Food Management
- Standard Development in Production and Quality
- Conflict Management in Organization, discipline.
- Financial Management, book keeping
- Development of business plan and marketing tools for business, cooperatives and organization
- Leadership
- Fundraising
- Tender processes
- Entrepreneurship
- Contract management

5.3 ECONOMIC DEVELOPMENT DEPARTMENT

GRANTS-IN-AID FOCUS AREAS AND SELECTION CRITERIA:

| FOCUS AREA | PRIORITY AREAS FOR FINANCIAL ASSISTANCE |
|-------------------------------|--|
| Construction | Seed funding for operation |
| | Equipment's and assets |
| | Youth & Women owned |
| | People with disabilities |
| Manufacturing | Seed funding |
| | Equipment & assets |
| | Stock and inventory (inputs for manufacturing) |
| | Plant |
| Retail | Trading equipment |
| | Stock |
| | Equipment's and assets |
| | Transport for logistic purposes (deliveries) |
| ICT / Digital industry | Fibre projects |
| | Software and hardware |
| | Digital spares |
| | Programming licenses |
| Green Economy | Energy saving equipment's |
| | Recycling equipment's |
| | Required assets and plants |
| Agriculture | Agricultural implements |
| | Seedlings, manure, pest control and Vaccines |
| | Cooperatives and SMME's |
| | Women and Youth owned |
| | Hydroponics |
| | Irrigation |
| Fleet | Plant |
| | Equipment |
| | Commercial Vehicles (trailers, etc.) |
| | Civil Related Plant and Equipment |
| | Vehicles fitted with Specialised Equipment's |

The following allocation principles will be applied by the department of Economic Development:

- (i) S.M.A.R.T (Specific, Measurable, Achievable, Relevant, Time-bound);
- (ii) Applications will be assessed on Return on Investment (RoI) on funds allocated e.g. Job creation, skills development, enterprise development, local production, geographic allocation, industry sector etc.;
- (iii) GEYODI elements (Gender, Youth and Disability) to ensure inclusiveness and social cohesion.

Furthermore, the department evaluates applications against the focus areas as listed below:

| Focus Area | Targeted Beneficiaries |
|---|----------------------------------|
| Increase number of job opportunities | SMMEs |
| Strengthening the capacity of enterprises through modernization and technological advancement | SMMEs Co-operatives |
| Increase the number of sustainable enterprises participating in business incubation | Incubation/Mentorship Programmes |
| Revitalization of the manufacturing sector | SMMEs |
| Accelerate transformation of the tourism sector | Tourism Product Owners |
| Increase the number of business tourists visiting Ekurhuleni per annum | Tourism associates |

Points scoring process derived as a tie breaking measure for all eligible applicants:

Business Case: Based on the strength of the business case or the combination of any of the following:

- (a) Business Plan and Profile
- (b) Existing Business
- (c) Operational processes
- (d) Required Grant recapitalise business
- (e) Required Grant benefit immediate community

Return on investment: based on the combination of any of the following:

- (a) Increase employment
- (b) Increase asset base
- (c) Increase turnover
- (d) Involve poor
- (e) Involve youth/Women and People Living with Disabilities (PWDs)

Local production: the applicants must be based within the boundaries of Ekurhuleni.

Priority sector bonus point: Applicants will be allocated bonus points for participating in the priority sectors, plus an additional point based on the combination of the following elements:

| Point | Element |
|-------|--------------------------|
| 1 | Sector |
| 1 | Skills development |
| 1 | Mentorship |
| 1 | City imperative services |
| 1 | Job creation |

6. GENERAL GUIDELINES, CONDITIONS AND EXCLUSIONS

6.1 General Guidelines -

- (a) The funding of applications shall proceed on the basis listed below in response to an advertisement issued by the Municipality after the expiry of the relevant period associated with the specific priority categories, after a compulsory application process and the required documentation have been submitted by the applicants and vetted by the Municipality, subject to each qualifying beneficiary signing an MoA, undertaking to comply with section 67 of *the Act*.
- (b) The Policy applies to all transfers of grants made by the Municipality restricted to deserving organisations and bodies serving, especially those working with the poor / marginalized / aged / youth / disabled / women or otherwise vulnerable people, as per the eligible Categories in 5;
- (c) Receiving and Grant-in-Aid, irrespective of the amount granted is a privilege AND not a right;
- (d) No precedent is established in respect of applicants who have been awarded Grants-in-aid before;
- (e) Funding of application will largely be considered on an annual basis in response to the annual advertisement inviting applications for the submission of Proposals for Grants-in-Aid;
- (f) No Grant-in-Aid applicant shall receive more than one Grant per financial year [*applicant Directorship Boards to be vetted*].
- (g) A beneficiary of a Grant shall be subjected to the following cooling-off period(s) before they can be eligible to apply for a Grant-in-Aid again;
 - (i) 3 years: Economic Development Department.
 - (ii) 1 year: Sports, Heritage, Recreation, Arts & Culture and, Social Development Departments.
- (h) The submission of a fully completed application form is a prerequisite for consideration for the allocation of funding;
- (i) All applications in excess of R100 000.00 (<One Hundred Thousand Rand), must submit their most recent audited financial statements. Applications for Grants less than R100 000.00 (>One hundred Thousand Rand) must submit certified financial statements) and, a budget for the ensuing financial year; and,
- (j) All applications in excess of R100 000.00 (one hundred thousand Rand) must submit their most recent audited financial statements. Applications for relatively small Grants less than R100 000.00 (one hundred thousand Rand) must submit certified Bank statements) and, a budget for the ensuing financial year; and,.
- (k) Applicants must satisfy Council in their submissions about the cost-effectiveness of the project to be funded and a demonstration of their ability to execute such project successfully.
- (l) Tranche payments (staggered) will be made to ALL Grant beneficiaries to ensure the retention of control by Council where a beneficiary defaults in fulfilling the obligations in terms of the signed MOA (not complying to the terms), by withholding further

payments (e.g. no expenditure report on the project impact have been submitted).

6.2 Special Conditions –

- (a) The applicant's key functional areas shall be those that are aligned to the responsibility of the Municipality, i.e. the applicant must be a non-profit institution / organization / body that is serving the poor, regulated in terms of section 67(4) of the *Act*, engaging in activities that support the municipality's Strategic Plan and Priorities, functioning in the fields where the Municipality itself is not actively or sufficiently engaged and where it is considered capable of delivering more effectively in terms of civic empowerment and value for money than the municipality could. Should this not be the case, the applicant will be advised to direct the application to the correct authority, e.g. the State, Provincial Government or other body;
- (b) The applicant must be a local institution/organisation (operating within Ekurhuleni) that contributes and/or that will contribute to the local community;
- (c) A local institution/organization that will contribute to any future commitment that may be imposed on the Municipality may also be considered;
- (d) The need for financial assistance, to be assessed from applicant's certified financial statements, must be addressed;
- (e) The financial resources of the applicant may determine its prioritisation for assistance, provided that organizations that have built up reserves for specific projects and which are self-sufficient will not be penalized;
- (f) The non-utilisation of assets, such as property, which could be sold to cover costs, may count against an applicant unless it forms a material source of annual income;
- (g) The allocation of the Grant-in-Aid should further the rendering of equitable services throughout all communities of the Municipality to the extent appropriate;
- (h) A copy of the applicant's Constitution, latest financial statements (certified if it is a registered organisation), annual reports, business plan and budget estimates (to be submitted by all applicants) which clearly indicate the benefit to the historically disadvantaged within the Community in the form of Development Programmes, etc., to be attached to the application. Failure to attach the abovementioned document will result in such an application not being processed for consideration;
- (i) The applicant must submit a copy of their latest Municipal Services Account or obtain a certified letter from the Chief Financial Officer reflecting the status of the applicant's Municipal services account / debt repayment arrangement;
- (j) The applicant's Constitution must provide that any assets remaining in the event of dissolution of the organization shall be handed over to any organization or society with similar objectives;
- (k) All applications to be verified by the relevant Department in the specific sector (verification of the existence of the organisation / body and the intended service is to be rendered, etc.)
- (l) All applications shall first be considered by the relevant allocating Department on the basis of their set criteria, in line with their individual strategic plan, inter alia, approved

on this basis by the Grants-in-Aid Committee and is accordingly submitted to the Mayoral Committee for approval;

- (m) All the recipients of Grants shall in terms of section 67 of the Act be required to submit:
 - i. monthly progress reports on how the Grant was spent, subject to the proviso that:
 - ii. if the project is such that the expenditure is incurred once-off, then the expenditure report must be submitted immediately once the funds are exhausted and if the funds are expended as the implementation of the project progresses, monthly reporting is peremptory until the funds are all spent.
 - iii. a final closing report not later than the end of the financial year of receiving the Grant, to be collated and submitted to Mayoral Committee, quarterly. Failure to submit progress reports / applying the Grant for a purpose different from the one its allocated may result in no consideration being given to future applications for a Grant and/or the Municipality taking legal action to recover the Grant allocated;
- (n) Any outstanding expenditure report on a previously allocated Grant will automatically disqualify such applicant for consideration for a Grant-in-aid;
- (o) Application of cooling-off period(s): An organisation/body receiving a Grant in a particular financial year can only re-apply for a Grant-in-Aid as follows:
 - (i) 3 years: Economic Development Department.
 - (ii) 1 year: Sports, Heritage, Recreation, Arts & Culture and, Social Development Departments.

6.3 Exclusions - Funding will not be considered in the following circumstances:-

- (a) If in Council's opinion an applicant receives sufficient funds from other sources to sustain its activities or the project applied for;
- (b) Applicants with Municipal services accounts in arrears in excess of R5000.00 are automatically disqualified from any future Grant-in-aid until such time that the applicant's municipal services account is properly managed (*prior arrangement made with Finance to pay off arrears less than R5000.00*);
- (c) Where projects fall outside the Municipal boundaries, unless the project benefits the Ekurhuleni community or a specific group within the Municipal boundaries;
- (d) Where only one individual will benefit from the funded project (unless proof of job-creation and community benefit / impact is attached to the close-up report).
- (e) Where subsequent requests for Grant-in-Aid are to cover unauthorised overspending on projects;
- (f) Council reserves the right not to award any Grant to an organisation that cannot account for the expenditure of a previously awarded Grant-in-Aid;
- (g) Where an applicant seeks to establish a new organisation;
- (h) Where the application form was not completed in full by the applicant and not all documentation provided without a reasonable explanation;
- (i) Where the applicant is more than three months in arrears to Council (rates & Taxes);

- (j) Funding for a bursary or other related activities / reasons / resources. [Bursaries to individuals are dealt with in accordance with the Council's Bursary Policy];
- (k) For the purposes of disaster relief;
- (l) Indigent Grants;
- (m) Housing development subsidies;
- (n) Originations/Bodies receiving any other financial assistance offered by CoE;
- (o) Donation of assets, moveable or immovable;
- (p) Rewards and Awards;
- (q) Conditional Grants received by the Municipality, which are in turn awarded to outside organizations to perform the service function;
- (r) Inter-governmental Grants;
- (s) Political organisations and Civic Organisation, Rate Payers' Association or for any religious purposes;
- (t) Where expenses have already been incurred;
- (u) Subsidies for municipal rates/housing billing subsidies;
- (v) No Grant-in-aid award to an organisation that cannot account for the expenditure of a previous Grant-in-aid within the prescribed period;
- (w) No subsequent requests for Grants-in-aid are to cover unauthorised overspending on projects;
- (x) Where the application does not meet with the priorities, strategies and objectives set out in the IDP of the Municipality;
- (y) Funds to support transportation costs, salaries and other overhead costs, *and*,
- (z) No grant will be allocated under this Policy, to an organisation / body in cases where a member of Council or an Official of the Municipality or close relatives of the said individual stands to receive any financial or other gain.

6.4 Specific Conditions:

Crèches and Soup Kitchens:

- (a) Must be affiliated with an Non-Profit Organisation (NPO) for service delivery;
- (b) Must be registered with the Department of Social Development.

7. PUBLIC ADVERTISEMENT

7.1 Advertisement process

The City Manager must, within three (3) months after the approval of the annual budget or an adjustment budget (in the event that additional funds becoming available), place a public advertisement in the main local newspapers distributed in the municipal area, calling for Proposals / applications to be submitted.

Advertisement should clearly specify:

- (i) The categories for which Proposals are called;
- (ii) The closing date for submitting applications;
- (iii) Who the applications should be addressed to;
- (iv) Where and how to obtain the relevant application forms;
- (v) That Council reserves the right not to make any award;
- (vi) That organisations that have received Grants in the previous financial year(s) must first submit a final close-up report on the projects previously funded; and
- (vii) That only duly completed applications on the prescribed forms will be considered.

Funds may not be transferred to any organisation or body that has not submitted a Proposal in response to the public advertisement.

7.2 Standard Application process (to ALL the applications across the departments):

Applications for Grants-in-Aid shall be:

- (a) Made on the prescribed form;
- (b) signed by the Head of the Organisation or body and must include the following information:
 - (i) Date of application;
 - (ii) Contact details of the organisation or body;
 - (iii) Date established;
 - (iv) Type of organization;
 - (v) Registration number;
 - (vi) Details of previous funding received from the Municipality;
 - (vii) Details of other funding received from the Municipality;
 - (viii) Purpose or aim of Grant;
 - (ix) Detailed description of project to be implemented utilising the funding;
 - (x) Detailed breakdown of projected costs;
 - (xi) Details of sources of income and funding;
 - (xii) Banking details;
 - (xiii) References;
 - (xiv) Certification of details provided by senior person of organization;
 - (xv) Checklist of supporting documentation; and
 - (xvi) Declaration by the head of the organisation or nominee to the satisfaction of the City Manager that the organisation or body implements effective, efficient and transparent financial management and internal control mechanisms to guard against fraud, theft and financial mismanagement and has in the past complied with the requirements of similar transfer of funds

7.3 Screening process

Applications will be received and registered by the Customer Care Managers Offices and the Grant-In-Aid support services.

Screening will be conducted by a Committee of the relevant allocating Department/s

confirming:

- (a) Site inspections should be conducted (verifying the existence of the organization)
- (b) Compliance with the criteria contained in this Policy;
- (c) Viability of the project;
- (d) Sustainability of the project;
- (e) That the project will be completed within the available funds;
- (f) That sufficient evidence of proper financial control will be exercised;
- (g) That applicants have demonstrated that it meets the goals of the IDP;
- (h) Individual applicants to assert / attach proof how the funded project will contribute towards job-creation and/or community benefit.
- (i) That applicants have demonstrated cost-effective measures and ability to execute project successfully, achieve clearly defined outputs or outcomes and the ability to manage funds effectively;
- (j) That the applicants have agreed to:
 - (i) Report monthly to the Accounting Officer on actual expenditure;
 - (ii) Submit audited financial statements for its financial year;
 - (iii) Implement effective, efficient and transparent financial management and internal control systems to guard against fraud, theft and financial mismanagement; and
 - (iv) Have in respect of previous similar transfers complied with all requirements (if any).

The Committee of the line Department will make recommendations to the Council. Ad hoc applications may be considered as part of and in terms of the Council annual Budget Adjustment process.

7.4 Approval Process

The Mayoral Committee of the Council will consider the recommendations of the Grants-in-Aid Committee, as recommended by the prioritized Municipal Departments which will ensure that the applications:

- (i) Comply with the Policy criteria;
- (ii) Allocations are within the approved budgeted funds;
- (iii) Comply with the provisions of section 67, MFMA of 2003; and
- (iv) Applicants' municipal accounts are up to date or if in arrears by an amount below five thousand Rands (R5000.00), prior arrangement for payment has been made with the Finance Department.

The Mayoral Committee of the Council will deliberate on the recommended applicants and make a final determination on the awarding of Grants, to be noted by the Full Council.

7.5 Award process

- (i) All applicants will be informed in writing of the outcome of their applications by the GiA Administrator (Corporate Legal Services Department).
- (ii) Where applicants are declined, they must be provided with reasons within two weeks of the decision to decline.
- (iii) Successful applicants will sign the Memorandum of Agreement.

7.6 Transfer Process

Payments will only be made once the payment agreement has been duly concluded; **Tranche payments** of Grants will be transferred to the Bank account of the applicant in such instalments as agreed to in writing in the signed MOA and payment agreement, approved in terms of the applicable delegated authority.

7.7 Monitoring and Evaluation

The City Manager and the line Department are responsible for the monitoring and evaluation of the allocations, by ensuring that:

- (i) A pre-approval process shall be undertaken to ensure that the approved beneficiaries are compliant and have the capacity to spend and report as allocated, thus ensuring avoidance of a recurrence of the previous AG findings.
- (ii) Funds are used exclusively for the purpose defined in the signed Memorandum of Agreement;
- (iii) Monthly progress reports are submitted and reviewed;
- (iv) Section 67(4) related beneficiaries receive the benefit, by obtaining receipts of the actual expenditure incurred and any other appropriate evidence;
- (v) Where it is found that Grants are used in breach of the Agreement, the provisions of the Agreement must be invoked and the matter must be reported to the City Manager, the Council or relevant Committee of the Council;
- (vi) A register of all Grants-in-Aid payments made in each Financial Year must be maintained.

8. PROCEDURAL AND REGULATORY OVERSIGHT

Section 67 requires the Municipality to implement and sustain proper and effective controls and procedures when allocating Grants to organisations. Compliance with the regulatory and control measures must be enforced by contractual and other appropriate measures.

This regulatory process will receive oversight and implementation by the responsible line Department on approval of the Grant allocations by the Mayoral Committee as recommended by the Grants-in-Aid Committee, and noted by the Full Council in line with the following guidelines:

- To put processes in place to monitor and follow-up on outstanding expenditure / close-up reports for the transfers, which reports will be **submitted to the Mayoral Committee, quarterly**;
- Conduct pre-approval site inspections and **post-approval performance reviews on fully implemented projects**.
- The **prioritized departments** to allocate Grants **to ensure strict compliance with** the criteria set in the **section 67** Funds Transfer Policy in the allocation of Grants.
- The Grants-in-Aid **Policy will be reviewed on an annual basis**, concurrently with the budget-related Policies of the Municipality and all the particulars of Grants must be reflected in the budget and any adjustment budgets in accordance with section 17(3)(j) of the Act. Before transferring funds in terms of the Grants-in-Aid Policy, the provisions of section 67 of the Act must be complied with.
- Any Grant made in contravention of the abovementioned requirements is irregular expenditure and may also be considered in some circumstance as unauthorized expenditure and may attract consequence management. These funds would have to be **recovered** from the person liable for such expenditure in terms of **section 32 of the Act**.

9. AGREEMENT

Before any funds are transferred to an organisation / body / association, a Memorandum of Agreement must be concluded and signed by the delegated Council representative with the beneficiary to protect the interests of the Municipality.

10. DEVIATION FROM THE POLICY / THE ACT

This Policy and the applicable MFMA provisions constitute the entire Framework for the allocation of Grants-in-Aid.

Any allocations in deviation of the Policy and the Act will be regarded as null and void. The municipality shall take steps to recover the money in cases where the allocation was done negligently or fraudulently. If the allocation was done in error, the municipality will institute proceedings against the recipient of the Grant to recover the funds allocated to avoid irregular expenditure.

11. COMMENCEMENT

This Policy takes effect on the date on which it is adopted by the Full Council of the City of Ekurhuleni Metropolitan Municipality.

